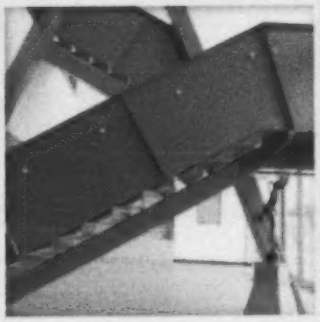


DEFENCE CONSTRUCTION (1951) LIMITED 2004—2005 ANNUAL REPORT

Canada

Defence Construction Canada (DCC) is a Crown corporation with a mandate to provide contracting, construction contract management and related infrastructure services in support of the defence of Canada. The prime beneficiary of DCC services is the Department of National Defence (DND). Services include:

- Procurement
- Contract Management
- Environmental Services
- Facilities Management
- Technical Support Services
- Project Management Support
- Support to Deployed Operations

Head Office
Defence Construction Canada
Constitution Square
350 Albert Street, 19th Floor
Ottawa, ON K1A 0K3

Atlantic Region
Defence Construction Canada
3 Spectacle Lake Drive, Suite 230
Dartmouth, NS B3B 1W8

Quebec Region
Defence Construction Canada
(Olympic Village - West Pyramid)
5199 Sherbrooke Street, Room 2700
Montreal, QC H1T 3X2

Ontario Region
Defence Construction Canada
Howard Maitland Building
780 Midpark Drive, Suite 205
Kingston, ON K7M 7P6

Western Region
Defence Construction Canada
#210, 13220 St. Albert Trail
Edmonton, AB T5L 4W1

Defence Construction Canada
Construction de Défense Canada

The Government of Canada has declared 2005 the Year of the Veteran, a time that is especially meaningful because it marks the 60th anniversary of the end of the Second World War. DCC joins all Canadians in honouring and remembering the contribution and sacrifice made by these veterans.

www.dcc-cdc.gc.ca

Mission

The primary mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure. DCC will support the timely delivery of defined projects or supplies for other government departments and agencies in accordance with its mandate.

Vision

Defence Construction Canada's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

Values

Dedication

DCC is dedicated to supporting the infrastructure requirements of the Department of National Defence.

For over half a century, DCC employees have dependably and diligently carried out that mission.

Fairness

DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

Corporate Objectives

As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, service delivery, stakeholder relationships, and corporate services and support:

1. to ensure the long-term viability of the Corporation through prudent financial management and the provision of efficient and effective services for DND;
2. to implement management practices that encourage value-added, innovative service delivery;
3. to manage industry, organizational and contractual relationships in an ethical, fair and professional manner;
4. to maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs;
5. to conduct operations in a way that helps protect the natural environment;
6. to maintain human resources management practices that advocate and advance the well-being of employees, as well as their personal and professional development;
7. to adhere to all statutory requirements and public policy regulations and guidelines; and
8. to make decisions and manage risks in the best interests of the Crown.

Defence Construction Canada
Construction de Défense Canada

Board of Directors
Conseil d'administration

June 30, 2005

The Honourable Scott Brison, P.C., M.P.
Minister of Public Works and Government Services
The House of Commons
Ottawa, Canada
K1A 0A6

Dear Minister:

I am pleased to submit to you, on behalf of the Board of Directors, the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2005. This submission is made in order to fulfill the Board's responsibilities respecting governance of the Corporation and in accordance with Part X of the *Financial Administration Act*.

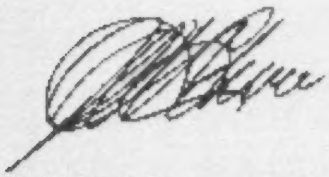
The mission of the Corporation is to assist the Department of National Defence in meeting its operational, construction and property management requirements, as well as supporting the timely delivery of defence projects or supplies for other government departments and agencies in accordance with its mandate.

In our role as a Crown corporation, we remain aware of the need to maintain transparency in the conduct of our operations. Although the Corporation is a mature organization, we regularly seek ways to improve and review elements of our governance procedures as well as ways to improve the flow of communication to our shareholders. In our role as a service provider, we meet the needs of the client, and as a Crown corporation, we are accountable to Parliament, through you, as Minister responsible for the Corporation.

As required, this report also includes the Corporation's financial statements for the period April 1, 2004, to March 31, 2005. The Auditor General of Canada has audited these financial statements.

Both the Board and senior management of the Corporation remain committed to building on our past successes and look forward to meeting the new challenges that lay ahead.

Respectfully submitted,



John D. McLure
Chair

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Canada

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HIGHLIGHTS 2004–2005

Business Volume

Contract expenditures — $477,902,000
The volume of the client's contract expenditures remained at approximately the same level as in the previous year.

Services revenue — $34,641,000
Services revenue increased by 18% over last year, due to increased demand for value-added services in the fields of environmental services, project management support, commissioning and facilities management.

Number of contractors and consultants used — 1,352
DCC conducts open and fair business practices and fosters competition in the marketplace. In 2004–05, DCC conducted business with 1,352 different firms.

Continuous improvement, innovation and developing a strategic human resources vision were key topics at a corporate planning session in September 2004. Senior managers met in Ottawa for two days as part of the annual planning process.

The new home of the 2nd Battalion of Princess Patricia's Canadian Light Infantry (2 PPCLI) in Shilo, Manitoba, was unveiled in November 2004. DCC handled the contract management for this design-build project valued at $40 million and completed in 16 months.

Quality

Level of Client Satisfaction — 97.3%
Throughout the year, DCC meets with each of its client groups to collect feedback on its overall performance. In 2004–05, the client satisfaction rating increased slightly, and remains consistent over the past few years.

The new Chiefs and Petty Officers' Mess and Accommodations Building at CFB Halifax was completed at the end of the year. Pictured here at the opening are (from left to right) the Honourable Myra A. Freeman, Lieutenant Governor of Nova Scotia; the Honourable Scott Brison, Minister of Public Works and Government Services; His Honour Lawrence A. Freeman; and Ross Nicholls, President of DCC. This was the first DND building to be certified by the Canada Green Building Council under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. DCC provided the specialized contracting, contract management and commissioning services for it.

The Royal Canadian Air Force (RCAF) Museum in Trenton, Ontario turned to DCC to provide contracting and contract management services for its Expansion Phase 1, completed at a cost of $3.5 million in March 2005. The museum is completely self-sufficient in its operations and although it is affiliated with DND, it is a non-public operation and a registered charity. This expansion was partially funded by a Province of Ontario SuperBuild grant.

Successful contracting ratio — 99.5%
DCC acknowledges the time and effort that the industry spends preparing and submitting tenders. To reduce the risk of a failed procurement initiative, DCC screens all projects to eliminate situations that might result in a failed tender call. Tender prices exceeding the available budget amount is the most frequent reason for tenders not resulting in a contract award.

Number of environmental incidents — 0
Number of safety incidents — 8
DCC reports environmental incidents that occurred as a result of policies, procedures, or management actions. None exceeded the reporting criteria last year. Time lost by DCC employees as a result of workplace accidents totaled 70 hours in 2004–05, a slim fraction of total workforce hours.

Value of contract claims at fiscal year-end — $6,301,000
At the close of last fiscal year, there were 18 on-going legal actions with a value of $6.3 million. This is an increase of $2.9 million over last year as a result of legal challenges by unsuccessful bidders.

Efficiency

Utilization rate — 72.9%
The utilization rate has remained fairly consistent over the past five years, ranging from 72.9% to 73.4%. This measure of the number of hours spent on billable service delivery as a proportion of total employee hours can be positively benchmarked against private sector firms in the engineering industry.

Direct Personnel Expense Multiplier (DPEM) — 1.52
This figure represents the factor by which direct payroll costs (including benefits and compensated absences) is multiplied to determine billing rates which in turn are used to recover all operating costs.

Human Resources

Number of employees at fiscal year-end — 405
The size of DCC's staff grew by 16.5% compared to the previous year, as a result of increased service demand by clients. Over the past three years, DCC's staff has increased by 52%.

Employee retention rate — 93.9%
Voluntary turnover was very low this year and the retention rate was well within the target of 90%. Although there is a slight decrease from last year's rate of 95.7%, this retention value follows a consistently high, multi-year trend.

Number of employees recognized for service in CF operational theatres — 5
These employees accepted the challenge of serving Canada overseas by providing support to DND deployed operations. They were recognized in 2004–05 and received either the General Service Medal, or the NATO Service Medal and the Canadian Peacekeeping Service Medal.

Transparency of operations is integral to DCC's business strategy, and the Corporation complies with the letter and the spirit of the Access to Information Act. In 2004–05, Danielle Richer, Access to Information and Privacy Coordinator for DCC, processed 25 access-to-information requests: 3 from the media, 12 from businesses, 10 from the general public and 15 consultation requests from other federal departments.

MESSAGE FROM THE CHAIR

On behalf of the Board of Defence Construction Canada (DCC), I am pleased to report on the Corporation's impressive performance in 2004–05. Significant achievements were realized in a number of areas, including improvements in overall productivity and further growth in services from 2003–04. As the demands of our client increase, the Corporation continues to experience significant growth in the core contract management function as well as in a number of specialty areas; in particular, the environmental and project management support business lines.

Our challenge remains how to build upon the success we have experienced over the past few years and, in fact, since DCC was incorporated back in 1951. The ongoing review at the senior levels of government on the proper role and function of public service organizations requires DCC to maintain high quality services while continuing to seek opportunities to increase efficiencies. The Corporation's senior management continually seeks ways to control costs, improve productivity and enhance quality, while ensuring that the development and the well-being of all employees is maintained. I am confident that we are well situated for meeting these goals. To maintain our momentum, the Board believes that the Corporation must continue to focus on the Corporation's raison d'etre – our mission, and our clients. To do so, management places a high priority on maintaining effective long-term relationships with the client, the Canadian defence community, the construction industry and other stakeholders. It is through these partnerships that the Corporation's ability to play a key supporting role in the defence of Canada is maintained. It is for these reasons that DCC remains positioned to achieve even more in the coming year.

From a governance perspective, I am pleased to report that this facet of our business continues to be one of the Corporation's strong points. It has become very clear in the past year that public sector organizations, such as DCC, must carry out their operations and public policy roles in a very different manner than just a few short years ago. Government efforts to enhance the level of rigour and accountability of Crown Corporations will place new and changing demands on the Board and its activities. We have begun to respond to many of these new requirements through several initiatives over the past year. Collectively, the Board and management remain very supportive of these new initiatives and will work with the Government to oversee their implementation over the coming year.

On a personal note, I wish to thank my fellow members of the Board, The Honourable Stewart McInnes, Nancy Penner, Karen Ellis, Jean-Claude Garneau and Ross Nicholls for their dedication and counsel over the past year. In these times of change, their dedication towards the Corporation and its objectives is very much appreciated. This team provides skilled leadership, a wide breadth of experience and a commitment to conducting business in accordance with the values expected by Canadians. The Board plays a key role in guiding the strategic direction of the Corporation and oversees management's execution of our expectations. Our collective expertise in the areas of construction, governance, law, public policy, finance and management helps guide our discussions on the wide variety of issues that affect the day-to-day management of DCC.

Finally, on behalf of the Board, I wish to offer our sincere congratulations to the more than 400 employees of DCC who are at the root of the Corporation's success. They continue to maintain and uphold the values and ideals of the Corporation on bases, wings and stations from coast to coast, in the far North and in support of operations deployed abroad in some of the world's most dangerous locations. It is through their knowledge, experience and, perhaps most importantly, their commitment to the Corporation's mission that DCC continues to provide significant value to the Canadian Forces, the Department of National Defence and to Canadians.

John D. McLure
Chair

MESSAGE FROM THE PRESIDENT

The fiscal year 2004–05 marked another 12 months of stellar performance by the Corporation's management and staff as DCC continued its remarkable growth. Providing greater levels of support to the Department of National Defence and the Canadian Forces (CF) is a positive sign that the Corporation is achieving its primary mission by providing more value added services each year, so that the Forces can focus on its core military activities.

All of our key operational performance measures indicate that the timeliness and quality of services are being maintained or improved. Perhaps most importantly of all, we were able to deliver successfully the DND infrastructure and environmental programs in a way that allowed the Corporation to attain a client satisfaction rating of 97.3%. As the range of services the Corporation provides becomes more diverse and complex, the Corporation has moved proactively to take the first steps toward evolving its service delivery model from a regional structure, to one based on functional expertise. This will improve the quality and responsiveness of service through the better management of expertise within areas of practice.

The number of DCC employees now exceeds 400—double the count seven years ago. Managing the growth in demand for DCC services is one of the biggest challenges facing the Corporation. One of our strategic responses to that challenge in 2004–05 was to initiate the design of a new training and development framework to support the orientation and career progression of all employees. A special emphasis was placed on educating new employees on DCC's history, values, ethics and management expectations. In addition, custom training modules related to core knowledge areas were developed.

Service revenue in 2004–05 increased by 18% over the previous year to $34.6 million. At the same time operating and administrative expenses expressed as a percentage of revenue, decreased by approximately 3% compared to 2003–04—a notable achievement. Some of this reduction in the unit cost of service will be re-invested in information systems, technology and resources. However, the combination of increased revenue and reduced expenses has allowed the Corporation to hold its billing rates for the coming year at 2004–05 levels. With the anticipated level of service demand, this represents a saving of $1 million for DND in 2005–06, a very tangible return on the Department's confidence in the Corporation.

I would like to thank all employees and my management team for their contribution to this successful year as we look forward to another active, challenging year in 2005–06 delivering defence projects as a strategic partner to the Canadian Forces and the Department of National Defence.

Ross Nicholls, P.Eng.
President and CEO

CORPORATE PROFILE

Governing Legislation

Defence Construction (1951) Limited was created under a clause of the *Defence Production Act*, and was incorporated by Letters Patent pursuant to the *Companies Act* of 1934. It was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation, commonly known as Defence Construction Canada (DCC), is accountable to Parliament through the Minister of Public Works and Government Services.

Mandate

The mandate, as set out in the Letters Patent, directs DCC to provide a wide variety of property-related services in support of the timely delivery of defence projects or supplies. These services are implemented to further the goals of the Department of National Defence (DND), the Canadian Forces and the Government of Canada related to national security and the defence of Canada's interests. The Minister of Public Works and Government Services reviewed this mandate and renewed it without change in 2001. In May 2001, a new Memorandum of Understanding (MOU) between DND and DCC was signed to update the terms of the working relationship.

Historically, DCC's business has focused on services related to construction, however over the past ten years, other value-added activities such as project management support, environmental services and operational support services have become a large percentage of total service offerings. The MOU with DND acknowledges DCC's increased flexibility in providing unique services outside the traditional range of contracting, contract management, and project management support.

History

DCC was created in 1951 to respond to the government of Canada's need for increased national defence infrastructure. Since that time, DCC has played a major role in projects that have helped shape Canadian history: the construction of the Distant Early Warning (DEW) line across the Arctic in response to Cold War threats; the rapid expansion of military bases across Canada; and the development of military infrastructure in France and Germany, as part of Canada's commitment to the North Atlantic Treaty Organisation (NATO).

Based on DCC's expertise in delivering defence projects, other public organizations have asked the Corporation to help manage construction programs, such as the construction of the Trans-Canada Pipeline and the 1967 World Exposition (Expo 67). DCC has also supported Canada's strategic defence policy objectives by helping carry out international aid efforts, such as the construction of hydroelectric developments in South Asia and schools in the West Indies. More recently, DCC has been closely involved in DND's programs to rationalize, consolidate and relocate operating units and to decommission redundant facilities.

In addition, the Corporation has responded to increases in demand for other infrastructure-related services by developing and offering expertise in a number of disciplines, including environmental and facilities management. In 2000, DCC began to provide contracting and project management services to Canadian Forces deployed operations. Since that time, the Corporation has provided on-site personnel support in Bosnia-Herzegovina and in Kabul, Afghanistan.

Policy Functions

The primary area in which DCC plays a role in realizing government policy is in supporting the goals of Canada's defence policy. The Department of National Defence (DND) policy statement called *A Role of Pride and Influence in the World* covers five main areas: the international security environment, the vision for the Canadian Forces, protection of Canada and Canadians, the North American defence context, and DND's contribution to a safer and more secure world.

DCC is heavily involved in each of these areas, in support of DND. The Corporation provided services and support staff in 2004–05 to deployed operations in Afghanistan, and in the past it has also provided services in Bosnia–Herzegovina. In Canada, DCC has a longstanding relationship with the Canadian Forces Housing Agency (CFHA), whose main goal is to meet the housing needs of military families, an important factor affecting everyday life for military personnel. Some of DCC's major projects, such as the modernization and the cleaning up of the Distant Early Warning line, have related directly to North America's defence systems. In the post-September 11 world,

Contractors shown here at CFB Greenwood are installing a cofferdam to divert the water away from the shoreline at the north side of Lower Zeke's Brook to allow for site remediation work to take place.

DCC performed the contract coordination on this project as well as ensuring that all work complied with environmental regulations.

DCC stands ready to support DND and the Government of Canada in any way it can by providing its defence service expertise to contribute to a safer and more secure world.

DCC plays an important role in the implementation of government policy in areas relating directly to the Government of Canada's contracting requirements. For example, in its business operations, DCC provides broad access to business opportunities and encourages competition by using MERX, Canada's official public sector electronic tendering service. By publicly tendering 99% of all contracts, DCC contributes to a level playing field for Canadian businesses. Protecting the interests of Canadians remains paramount, so DCC demonstrates fiscal responsibility when awarding and managing publicly funded contracts.

The competitive process stipulates that DCC award contracts to the lowest compliant bidder. DCC complies fully with national and international trade agreements and has taken these into account in its procurement processes, specifically the process for awarding contracts subject to the North American Free Trade Agreement (NAFTA) and the Agreement on Internal Trade (AIT).

DCC supports federal policy objectives in regard to the *Official Languages Act* and strives to offer bilingual services in all office locations where required. It quickly resolves the few complaints it receives under the *Official Languages Act*.

Transparency of operations is integral to DCC's business strategy, and the Corporation complies with the letter and the spirit of both the *Access to Information Act* and the *Privacy Act*. In 2004–05, DCC processed 25 access to information requests from the general public and 15 consultation requests from other federal departments. Most of these requests came from parties who wanted to see documents related to contract awards.

DCC complies with all environmental protection legislation and regulations, such as the *Canadian Environmental Protection Act*. The contaminated soil clean-up project at the North Warning System long-range radar site in Saglek, Labrador, completed in September 2004, was one project that showcased the Corporation's environmental expertise. Another was the Chiefs and Petty Officers' Mess and Accommodations Building in Halifax, completed at the end of the year. This was the first DND building to be certified by the Canada Green Building Council under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System, and DCC provided the specialized contract management services for it.

DCC's Primary Client – The Department of National Defence

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group (IE) of National Defence Headquarters (NDHQ) is the principal point of contact for the centrally managed capital construction program and environmental programs. Since the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their own facilities, DCC also has significant dealings within their organizations, primarily at the base/wing/station level. Finally, DCC contracts for and delivers consulting, construction and environmental services on behalf of a number of smaller organizations within DND, including the Canadian Forces Personnel Support Agency (CFPSA), the Canadian Forces Housing Agency (CFHA), Defence Research and Development Canada (DRDC), the North Warning System Office (NWSO), the national level joint engineering operations staff (J3 Engineer) and NATO Forces with establishments in Canada. As other government departments and agencies assume roles in Canada's changing defence environment, DCC will respond to requests for support within the scope of its mandate.

Cold Lake Mayor Hansa Thaleshwar (left) and Col C.S. Sullivan, Commander of 4 Wing Cold Lake (right) open the Northern Spirit Leisure Centre in September 2004. This was a $4 million design-build project. DCC provided contracting, contracting management and commissioning services.

DCC employees interact with contractors on job sites every day. Last year, DCC conducted business with 1,352 different firms.

Contractors and Consultants

Although DCC creates value for the citizens of Canada, the Corporation does not serve the general public directly. Instead, private sector consultants and contractors constitute the specialized "public" that interacts with DCC. For that reason, it is important for everyone at DCC to be aware of what is happening in the industry.

DCC employees interact with contractors on job sites every day. However, there are also frequent, more formal, exchanges with the Canadian Construction Association (CCA) and its provincial and trade counterparts.

These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to interactions between DCC and its contractors. DCC keeps in touch with the insurance industry to learn of trends in risk management, and with the surety industry for developments in contract security. Representatives of DCC continue to sit on committees and maintain relationships with such groups as the Association of Consulting Engineers of Canada (ACEC), the Royal Architectural Institute of Canada (RAIC), the Canadian Public Procurement Council (CPPC), and the Canadian Design-Build Institute (CDBI). Keeping current with industry standards is critical to DCC's ability to deliver service. Consequently, DCC encourages its employees to develop their professional skills. The Corporation helps employees maintain industry certifications and designations relevant to their work, such as the CCA Gold Seal and the Project Management Institute's PMP certification.

Canadian Construction Sector

The construction industry is one of Canada's most significant industries in terms of dollars generated, employee base and impact on Canadians. According to Statistics Canada, this industry employed 1 million Canadians at the end of 2004, a number that rose by 5.7% from the previous year. Construction represents 12% of Canada's annual gross domestic product, and its value is expected to account for $130 billion in economic activity. To evaluate this very considerable impact on the Canadian economy and the role that DCC plays in that contribution, it is important to understand the structure of this sector.

According to the Construction Sector Council,

- one out of every 17 Canadian workers is employed in the construction industry;
- almost one million men and women work in trades and professions associated with the construction industry;
- there are more than 108,000 trade contractors and more than 20,000 general contractors in Canada;
- of the total construction industry employee population, 41% are located in Ontario, 18% are in Quebec and 15% are in Alberta; and
- even though the construction industry is a major employer, only 5% of construction firms have more than 10 employees.

Given the fact that the construction industry consists of a large number of small to medium-sized businesses, DCC needs to understand the challenges and the very real, ongoing business threats these entrepreneurs face. To help contractors do their jobs, DCC works to maintain a level playing field, simplify bidding procedures, and stimulate interest in and encourage competition for all of its contracts. At the same time, DCC realizes that contractors need to maintain cash flow, so it is adept at negotiating fairly when changes must be made to projects.

This understanding of contractors, coupled with DCC's historical relationship with its client, enables the Corporation to work successfully with both parties. When differences arise, DCC can mediate fairly and reasonably.

KEY SUCCESS FACTORS

Five characteristics of DCC's services allow the Corporation to consistently deliver quality service to DND operations. These factors have a direct impact on the viability of the Corporation.

Focus — For more than 50 years, DCC has had a single focus on a major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This unique characteristic makes DCC unlike any other organization in either the private sector or the public sector.

Service — Standing midway between the public and private sectors, DCC knows how the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

Delivery — DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Flexibility — As a Crown Corporation, DCC can manage its staff and administer projects with efficiency and flexibility equal to that of the private sector.

Value — DCC seeks cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

Corporate Funding and Equity

DCC operates under a service billing system and delivers services to DND on a full cost-recovery basis. The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

Banker — The Royal Bank of Canada
Auditor — The Auditor General of Canada

Environmental and Safety Responsibilities

The DCC Board of Directors and management group are committed to the principles of sound environmental stewardship, to the practice of due diligence and, as a public institution, to meeting the expectations of Canadians. DCC's Environmental Management Framework, established in fiscal 2000–01, outlines the strategic direction and long-term objectives of the environmental aspects of DCC's activities. The Corporation finished implementing this framework in 2003–04, integrating environmental procedures into day-to-day operational and administrative processes.

In 2004–05, DCC implemented management programs designed to meet the Corporation's environmental objectives and set targets for the next several years. Last year, the environmental, safety and health committee initiated several new environmental measures. First, a corporate-wide program designed to improve DCC internal green office practices, including those related to procurement, energy consumption and waste reduction was established. This program seeks to reduce office-related paper use by 20%, requires all office equipment to have an efficient energy consumption certification and encourages the use of more environmental friendly office products. It is expected that over the next year, 95% of all new office equipment will have some form of environmental certification. The Operations Division at DCC established a green building working group, with an objective to raise the profile of green building certification and construction waste reduction. Finally, DCC improved its hazardous material awareness by providing all employees with guidelines for managing hazardous materials on work sites and the appropriate spill response procedures.

SERVICE LINES

DCC serves as an intermediary between its government client, on the one side, and consultants and contractors on the other. For over 50 years, DCC has delivered an extensive range of infrastructure projects to the Department of National Defence: everything from runways and civil works to buildings, from target systems to radar stations, and from environmental remediation to unexploded ordnance disposal. The following is a list of the Corporation's principal services.

Procurement — Procurement for construction, maintenance, goods and services. Procurement and solicitation planning, preparation of tender documents, solicitation, evaluation and award, market assessment, and bidability reviews.

Contract Management — Contract administration including contract payments, change management, cost control, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment, and warranty management.

Environmental Services — Assessments and audits, technical support to environmental remediation, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems, and hazardous materials (HAZMAT) survey coordination.

Facilities Management — Building condition reports, life safety system management, maintenance contract management, utilities management, and re-capitalization planning.

Technical Support Services — Range inspection, facility inspection, commissioning, constructability reviews, design coordination, shop drawing reviews, and building energy performance services.

Project Management Support — Scope, cost and schedule control, program planning, and preparation of scope documents such as terms of reference and statement of requirement.

Support to Deployed Operations — Procurement, quality assurance, and contract administration.

Vigilant employees keep lost work time due to safety incidents to a minimum. Last year, DCC employees collectively lost just 70 hours. Pictured here are Samantha Roeske, Planning Officer and Ryan Polkinghorne, Consultant Contract Co-ordinator, two of DCC's fire wardens at head office in Ottawa.

The Corporation's environmental, safety and health committee continues to oversee the implementation of this framework, which will be reviewed in 2005–06. This group normally meets four times a year to review current environmental issues and to generate ideas to help DCC fulfill its environmental management responsibilities. In addition, all regional and divisional business plans now identify specific environmental initiatives designed to meet the framework's goals at the local level. An intranet site gives employees access to a significant database of environmental information. It also allows staff to report environmental incidents online, quickly alerting senior management about potential environmental issues. Environmental incidents are defined by DCC as follows:

Any specific or recurring event(s) that lead to an undesired potential or actual impact on the biophysical environment, the atmosphere, or human health or safety. Such incidents can arise from DCC or contractors' activities in offices or work sites or through third-party activities that affect these sites. Incidents include any legal or regulatory non-compliance, regardless of a physical incident having taken place.

DCC's environmental management framework requires employees to report environmental incidents that occur at its work sites. There is an established set of criteria used to determine which of these incidents the Board reviews, for example, fuel spills greater than 50 litres. Of the 21 reports received in 2004–05, five exceeded the criteria and were reported to the Board. Of these five reports, none were determined to have resulted from DCC management actions.

Maintaining a Safe Work Environment

The management of employee occupational health and safety remains a key concern of the Board, Senior Management, and the Environmental, Safety and Health Committee. DCC continues to invest in safety related communications and training activities.

Employees have developed an increasing awareness of health and safety issues and the Committee and the National Safety Coordinator remain highly committed to maintaining DCC's excellent record as a safe workplace. The goal is to have no incidents occur. For reporting purposes, the Corporation tracks incidents that result in lost work time. In 2004–05, eight incidents involving DCC employees were reported. The total number of lost work hours for these incidents was 70 hours. Although this number is higher than in last year, when seven incidents resulted in two hours of lost work time, it remains a small fraction of the Corporation's total employee work hours.

OPERATING ENVIRONMENT 2004–2005

At the onset of 2004–05, several factors were cited as having a potential impact on the course of DCC's business in the coming year. Fluctuations in client resources, economic swings in the industry and the labour force, as well as the impact of some new government policies were considered. There are varying degrees of impact in each of these areas.

DCC's Primary Client – The Department of National Defence

Since the nature of DCC's business is closely linked to that of its client, the priorities within the Department of National Defence influenced activity within the Corporation. The CF and DND continued to manage and respond to changes and trends in the Canadian business environment, such as the increased focus on managing public resources efficiently. DND continues to face challenges in maintaining operational commitments in the face of ongoing resource constraints, and so it is always looking to improve efficiency. One of the ways that DCC assisted the department with this requirement last year was by providing the department with additional project management support. In 2004–05 DCC increased project support to the department's project management efforts by 41% over the previous year, an indication of how this expertise is valued by the client. As anticipated, the CF reduced commitments in Bosnia-Herzegovina, and DCC deployed staff only to Afghanistan.

Canadian Policy Environment

Last year, several government policy reviews responded to contemporary issues related to financial management, accountability and the control of federal government spending. These studies included a major review of federal government procurement policy, a review of the *Financial Administration Act* and a review of the governance of Crown corporations. The latter, undertaken by Treasury Board Secretariat, will strengthen the oversight and accountability framework for Crown corporations. While DCC does not anticipate that the recommendations will significantly impact the way it does business, the Corporation is committed to implementing promptly and proactively any regulations, guidelines or best practices arising from these studies. The Corporation is confident in and proud of its solid track record to date regarding it corporate performance and record of accountability, which the findings of regular internal and external audits have reinforced.

Ethics and Integrity

Ethics and integrity, the backbone of DCC's culture, have always been a priority for the Corporation in the way it conducts business. Recently, public and private sector organizations have faced demands for greater transparency in their governance structures and practices, and in the way they operate and report on performance. One new initiative arising from this movement is the Government of Canada's guidelines for proactive disclosure. In keeping with these guidelines, DCC now publicly posts details of all contract awards on its Web site. The Corporation will continue to monitor changes in government policy and will modify its business procedures as required. For example, last year the Government of Canada issued a new values and ethics code for the public service. DCC responded by re-evaluating and updating its own code of business conduct, integrating values, ethics, hospitality and conflict of interest guidelines into a single code for the Corporation. Corporate human resources policy allows an employee to bring his or her concerns regarding any failure in the application of the code of business conduct to the attention of the Corporation's senior management without fear of retribution. An employee has access all the way up to the Chair of the Board of Directors to seek a hearing for his or her concerns.

Workforce Factors

DCC shares the federal government's commitment to building and maintaining the capacity of the public service and to achieving effective ethical leadership and performance within a quality work environment. Corporation employees stay informed of trends in these areas and closely monitor trends in human resources management in the public service. Personnel issues that were and remain a constant challenge for DCC include finding qualified personnel in remote areas, and finding personnel with the appropriate linguistic skills and the unique combination of skills required to maintain and enhance DCC's capacity as the Corporation's services become more and more specialized.

Last year, most regions of Canada continued to experience high levels of activity in all sectors of the construction industry. This is even more pronounced in Alberta and British Columbia where the booming oil and gas industry and public sector infrastructure projects are fueling competition for technical staff. This creates challenges with the recruitment and retention of personnel, but to date DCC has successfully met its operational requirements.

SERVICE DELIVERY

Since DCC's mission is to deliver high quality, timely and efficient defence infrastructure services, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given the Corporation in-depth knowledge of client requirements for defence and security-related projects. Even with this niche, continuous improvement is always a priority. DCC regularly takes steps to maintain and develop new modes of service delivery.

Contract Services

DCC's Contract Services Division (CSD) links DND with the contractors and suppliers who can fill Canada's defence infrastructure needs. CSD provides these procurement services across Canada and overseas. It understands DND's demanding operational requirements, the rigour of the federal procurement policy and the unique practices of the construction industry.

Every year, approximately 1,500 contracts are issued for professional services, construction, goods, and other infrastructure-related work. CSD's innovative, responsive and efficient procurement processes have been designed to meet client and industry needs. The DCC ISO 9001 certified quality program ensures consistent delivery, enhanced client input and continuous improvement. The following processes are a few of the options.

Ron de Vries, Vice-President Contract and Client Services, shakes hands with Brigadier-General (Ret.) Robert (Pep) Fraser, Colonel Commandant of the Communications and Electronics Branch. This is on the occasion of the official opening of the new Joint Signal Regiment Headquarters at CFB Kingston in November 2004.

Quick response tenders — DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place within 14 calendar days.

Tender boards — Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

Design-build — This contract option is used to deliver a portion of the major capital construction program. While the time required to contract under this option is longer than the time needed for other standard processes, the overall project delivery time has been reduced from the traditional design-bid-build method.

DCC has many other infrastructure-related tender processes; each designed to meet a particular requirement.

The following processes are some of the options.

Best value contracts — In design-build projects where the input of proponents in areas such as energy efficiency and maintenance considerations can contribute to lower building life cycle costs, these factors may be evaluated, along with construction cost, to determine which proposal is the best overall value for the client. A rigid, transparent evaluation process is used, since the best value submission may not represent the lowest capital cost.

Construction management — Contractor expertise is engaged to help manage multiple construction activities.

Energy performance contracts — Firms are contracted to make infrastructure improvements on DND facilities with payment made from the resulting energy savings.

Standing offers — Firms are pre-selected to provide specific services, as and when required.

Facility maintenance contracts — Expertise is contracted for long-term operation and maintenance of DND facilities.

Timeliness of Procurement

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since the timeliness of procurement is important both to DND and to the industry, this activity is reported as a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency.

The target represents a reasonable length of time from the point at which the Notice of Proposed Procurement (NPP) is received from the client to the time when the contract is awarded to the contractor or consultant. Factors that affect performance against the targets include the availability of funding, bid anomalies, and changes to the scope and value of the work during the procurement process. Additional time that may be required as a result of these is not included in the targets and often accounts for exceeding the performance targets.

The following two tables demonstrate DCC progress at the end of 2004–05 in terms of timeliness of construction and consultant procurement. To provide a context for these results, the median number of days from NPP to award of the contracts is provided in the tables. The median is used because, based on historical trends, and the multitude of project specific variables, it is reasonable to expect that DCC can achieve the targets 50% of the time. In Table 1, the 2004–05 results for the design-build contracts are not reported, as there were only four of

Construction Procurement – Table 1

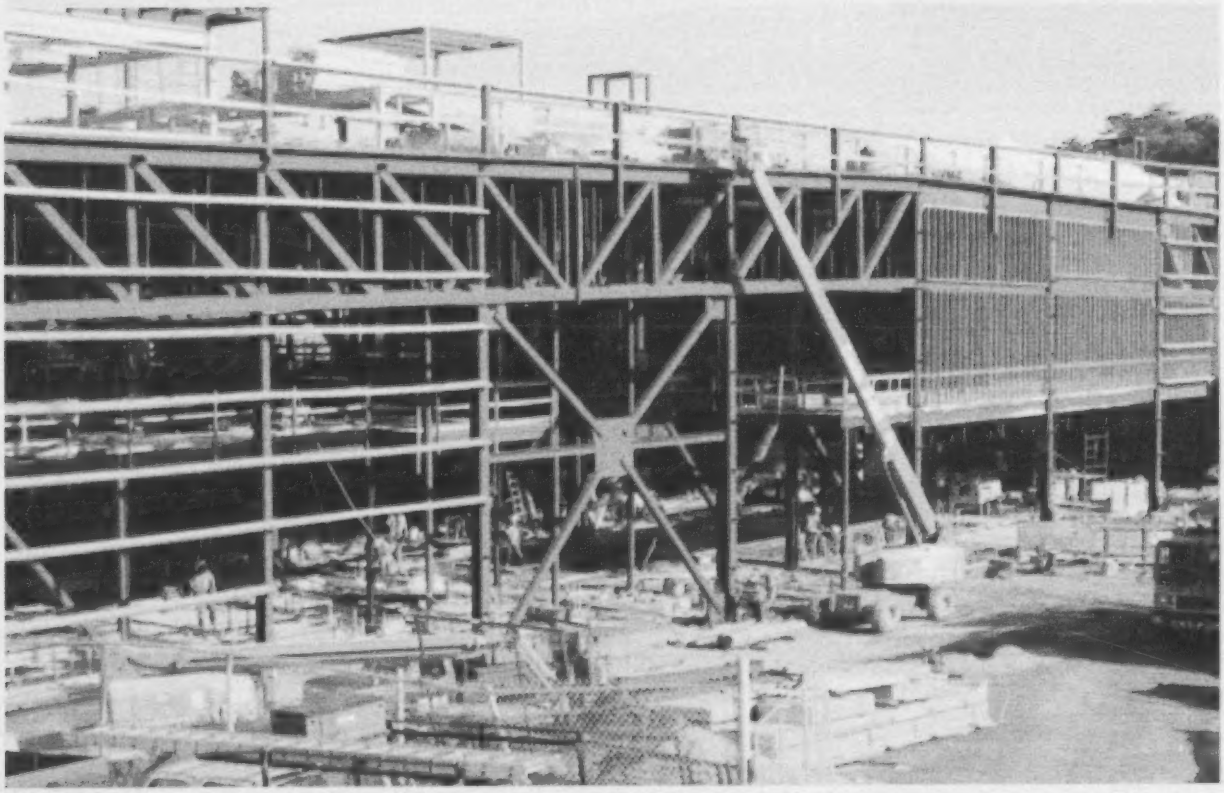
	RESULTS: 2003–04 YEAR END			RESULTS: 2004–05 YEAR END		
Indicator	**Target**	**Actual median number of days to award**	**Number of contracts**	**Target**	**Actual median number of days to award**	**Number of contracts**
Regular tender call	35 days	41 days	137	35 days	34 days	152
Tender boards	25 days	25 days	467	25 days	27 days	485
Quick response	14 days	14 days	310	14 days	13 days	264
Design-build	120 days	144 days	11	120 days	N/A*	4

*Sampling of contracts was too small to provide a meaningful picture of activity.

Consultant Procurement – Table 2

	RESULTS: 2003–04 YEAR END			RESULTS: 2004–05 YEAR END		
Indicator	**Target**	**Actual median number of days to award**	**Number of contracts**	**Target**	**Actual median number of days to award**	**Number of contracts**
SELECT	25 days	27 days	213	25 days	26 days	282
One-step proposal	60 days	57 days	76	60 days	57 days	79
Two-step proposal	120 days	124 days	20	120 days	152 days	5

The structure and site work of the Fleet Maintenance Facility Cape Breton at the CFB Esquimalt is scheduled for completion in July 2005. DCC is responsible for contract management and commissioning services for this $49-million phase of the project.



these contracts awarded during the year. The reduced number of design-build contracts is not indicative of a new trend in the use of design-build as a project delivery method, it is simply a cyclical phenomenon and exceptional circumstances make the results statistically unreliable.

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 99.5% of DCC tender calls resulted in the award of a contract. The most frequent reason that tenders do not result in contracts is that the contract price exceeds the approved budget amount. To date, DCC is meeting the industry expectations for a reasonable turnaround time to award a contract after a tender has closed.

Operations

The Operations Division delivers a broad range of services to construct and maintain DND facilities, including control towers and hangars, dockyards and armoured vehicle maintenance facilities, community centres, housing, barracks, clinics, water and sewer systems, communications systems, and roads and grounds. Other services include firing range inspections, facilities management, project management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, commissioning and training.

Throughout 2004–05, DCC provided support to DND on major construction projects across the country and also supported CF operations deployed abroad.

DCC is supporting DND's leadership in implementing the government's environmental policy and regulatory requirements by promoting green construction techniques. DCC personnel have taken the initiative to obtain Leadership in Energy and Environmental Design (LEED) certification to improve support to project management and construction activities. An example of a successful energy savings project completed in 2004–05 was the Chiefs and Petty Officers' Facility completed at CFB Halifax. It exceeds the National Model Energy Code and achieved LEED certification.

In the Quebec Region, DCC was able to support the department further with its commitment to a better environment by undertaking a $5.2 million energy performance contract at CFB Bagotville in November 2004, as well as overseeing the clean-up of lead contaminated firing ranges at six armouries across the province.

The end of last year saw the close of several major projects in Kingston, Ontario with the completion of the renovation and expansion of Ridout Row, the building of a new facility for the Joint Signal Regiment and the third phase of the renovation of the Army Simulation Centre. In Trenton, Ontario, the DCC site office oversaw the project management of the Royal Canadian Air Force Museum expansion, a project financed through non-public funds. In November 2004, the 2nd Battalion of the Princess Patricia's Canadian Light Infantry (2 PPCLI) moved into their new home in Shilo, Manitoba. In Winnipeg, Manitoba, a key element to the 17 Wing consolidation initiative was completed with the opening of a new, $32 million logistics complex.

Throughout 2004–05, there were four DCC employees who served in Kabul, Afghanistan providing contract management support to the Canadian Forces (CF) at Camp Julien and to Foreign Affairs Canada (FAC) on the construction of a new Canadian embassy.

Contract Management Services

One of DCC's core competencies is contract management. The Corporation provides many services to support the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program. Key contract management services include the following:

- contract administration;
- quality assurance;
- regular client reporting;
- coordination of expert services;
- monitoring of construction schedules;
- change management;
- certification of progress payments;

A new $5.3-million dining/kitchen facility opened at the Connaught Ranges and Primary Training Centre in Ottawa last year. DCC provided contracting, contract management and commissioning services for the 500-seat, 2,300-square-metre building. In addition, DCC awarded the contract for the facility's furnishings.

Pictured below is the Section Area Operations Centre at 22 Wing North Bay. DCC managed the contract coordination, commissioning and the quality auditing services for this $22 million project.

- certification of contract completion;
- document control;
- commissioning services;
- dispute resolution;
- monitoring of deficiencies and warranties; and
- resolution of contractor performance issues.

Environmental Services

Since the early 1990s, DCC's core staff of environmental specialists has helped DND implement its environmental initiatives — in particular its sustainable development strategy. The Corporation helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk. Selected environmental services include the following:

- environmental impact and site assessments;
- site remediation and decommissioning;
- environmental support for project and program management;
- sustainable development strategy support;
- policy, compliance and advisory services;
- waste management auditing and planning; and
- environmental monitoring and compliance auditing.

Facilities Management Services

DCC contracts for and manages the delivery of facilities management services for DND, ensuring both smooth operations and that DND buildings are efficiently and cost-effectively maintained. The Corporation's experience covers all areas related to facilities management, including mechanical, electrical, structural, environmental and building maintenance services. Key facilities management services include the following:

- emergency response planning;
- environmental management reporting;
- management of design and construction of maintenance projects;
- energy management;
- fire safety management;
- building condition reporting; and
- project budget planning for re-capitalization projects.

Technical Support Services

DCC can provide its client with a single window to technical services because its in-house support capability complements its procurement, construction, and contract management activities. Integration of service lines is a conscious business strategy of the Corporation in order to provide the most cost-effective service possible. Key technical support services include the following:

- energy performance contracting;
- preventative maintenance inspections, troubleshooting and analysis;
- commissioning;
- environmental technical support;
- quality surveys; and
- materials testing.

Project Management Support

DCC provides a range of fully integrated project management services to complement DND capability and resources. These vary from identifying and analyzing problems to the planning, design and construction phases of a project. The Corporation recognizes the importance of meeting established standards and many of its project managers hold industry recognized certifications.

Project management support services offered range from specific tasks to support DND project managers, to turnkey project services and program management.

Support to Deployed Operations

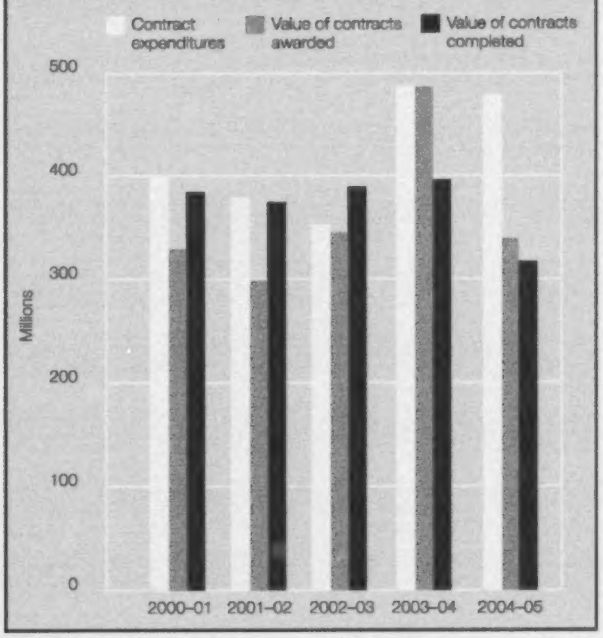
An important part of DCC's mandate is to help DND to both meet its operational requirements and comply with federal contracting policies. DCC takes the expertise it already provides at bases and wings and brings them to an operational theatre. Support services for deployed operations include a variety of procurement, contract management, environmental and project management support.

Tracking Client Satisfaction

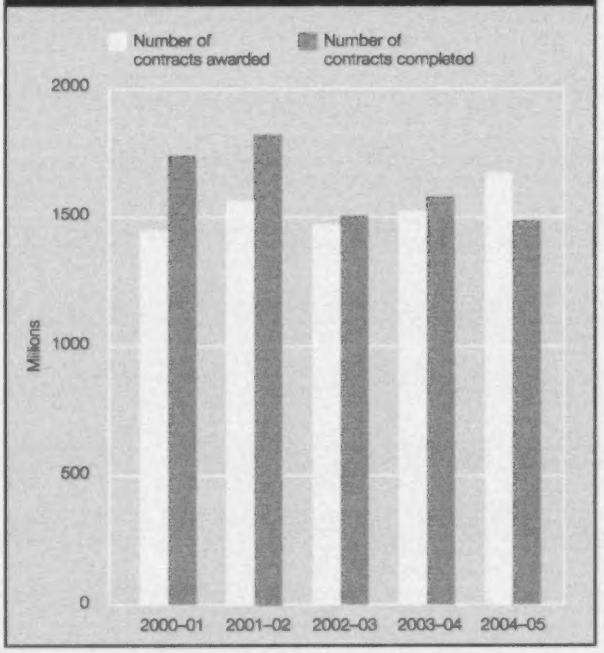
Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction as one of its key performance indicators. In past years, DCC administered these surveys through a combination of interviews and mailed questionnaires. In 2004–05, the Corporation collected all of its data through face-to-face interviews.

Service Delivery Highlights

Contract Values *Figure 1*



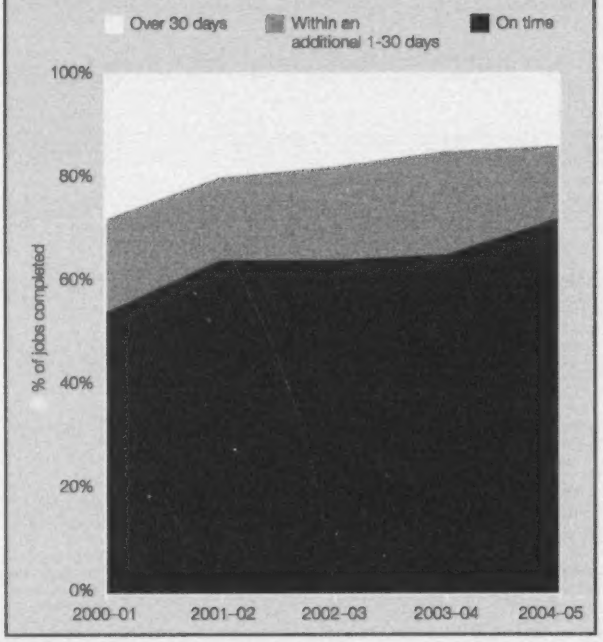
Number of Contracts Awarded and Completed *Figure 2*



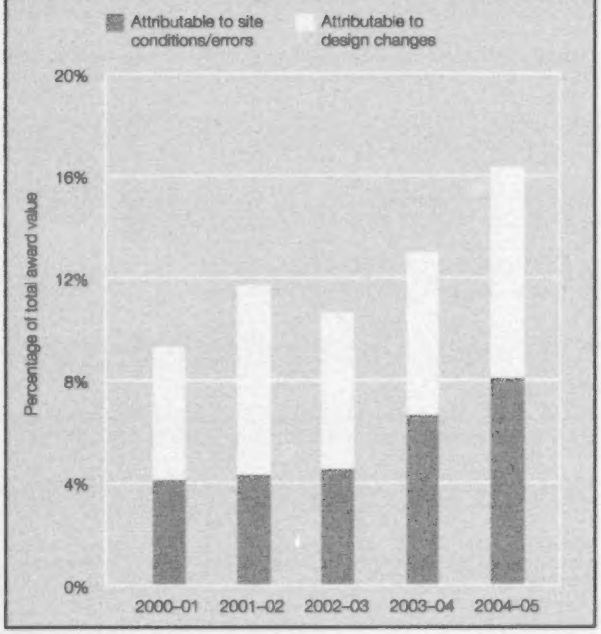
Each office surveys the client representative responsible for each service agreement, and collects feedback by service line. Many service agreements involve more than one DCC service line. Surveys are administered on a staggered schedule throughout the year in each region, with the DCC representative often linking the survey interview with another business visit to minimize client interruption.

In 2004–05, DCC collected 660 surveys, compared to 497 surveys collected in the previous year. The overall result is that in 97.3% of the cases, DCC met or exceeded client expectations. When the client identified issues, they related to specific incidents such as communications, administrative procedural problems or staffing concerns. These matters are addressed by DCC quickly and do not indicate any wide-ranging pattern of concern. This high client satisfaction rating continues a trend that has been consistent over the past few years.

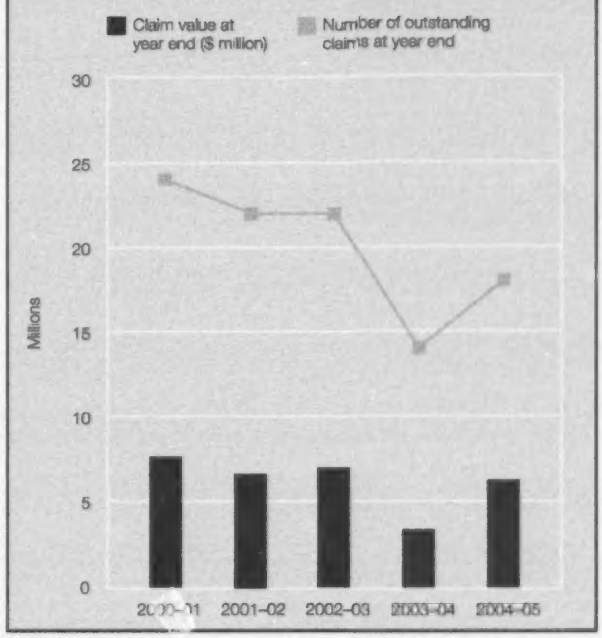
Timeliness of Construction Contract Completions *Figure 3*



Change Order Values *Figure 4*



Legal Claims at Fiscal Year End *Figure 5*



A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons. Figure 3 describes the following data. In 2004–05, 72.0% of completed construction contracts were finished by the pre-established completion date. Another 14.0% were completed within one to 30 days. This performance is an increase over 2003–04 when 64.8% of contracts were finished by the pre-established completion date. Although there are no formal targets set for this indicator, DCC tracks this information to help keep the client informed, and to help the facility users manage the schedule risk associated with construction.

Figure 4 describes the change order values. On the basis of 861 contracts completed in 2004–05, the total value of change orders issued represented 16.3% of the original award value of the contracts. Design changes accounted for 8.3% of the increase and 8.0% as a result of unexpected site conditions.

This is a significantly higher rate of cost growth compared to past years. This can be explained by a single anomalous contract. The environmental remediation of the Harvey Barracks property on the former CFB Calgary Alberta site was completed in accordance with an aboriginal land claim agreement that required all work to be carried out by the Tsuu T'ina Nation. The cost of various work packages were negotiated with the Nation over four fiscal years, and added to the original contract. Since change orders are reported only on contract completions and the total value of work carried out as change orders was high, this contract skewed the Corporation's overall statistics for the past year. Without this contract, cost growth would be recorded as 6.21% design changes, 3.63% as site conditions for a total of 9.84%.

A direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contract claims before the Courts at any given time. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. The claim trend over the last several years as indicated in Figure 5 represents only contract claims filed in court. In 2004–05 DCC closed four claims that were settled for a total value of $71,957. As at March 31, 2005, there were 18 claims outstanding for a total value of $6,301,007.

Contract Expenditures 2004-2005

All amounts are reported in $ thousands

	CONSTRUCTION CONTRACTS	PROFESSIONAL SERVICES	TOTAL
Atlantic Canada			
Gagetown, NB	$28,776	$1,873	$30,649
Goose Bay, NL	2,651	984	3,635
Gander, NL	784	102	886
Greenwood, NS	10,360	1,044	11,404
Halifax, NS	31,046	2,529	33,575
Other	119	2,582	2,701
Subtotal	**73,736**	**9,114**	**82,850**
Quebec			
Bagotville, QC	4,228	189	4,417
Montreal, QC	7,678	1,236	8,914
Valcartier, QC	25,759	3,465	29,224
Subtotal	**37,665**	**4,890**	**42,555**
Ontario			
Borden, ON	23,939	848	24,787
Kingston, ON	16,378	3,143	19,521
London, ON	12,241	974	13,215
North Bay, ON	16,761	268	17,029
Ottawa, ON	2,463	1,366	3,829
Petawawa, ON	11,110	2,567	13,677
Trenton, ON	14,071	318	14,389
Toronto, ON	14,640	356	14,996
Subtotal	**111,603**	**9,840**	**121,443**
Western			
Calgary, AB	2,576	172	2,748
Chilliwack, BC	672	247	919
Cold Lake, AB	7,109	274	7,383
Comox, BC	2,992	395	3,387
Edmonton, AB	11,944	336	12,280
Esquimalt, BC	56,633	3,148	59,781
Moose Jaw, SK	2,223	295	2,518
Suffield, AB	10,802	1,358	12,160
Shilo, AB	24,602	970	25,572
Winnipeg, AB	32,043	783	32,826
Wainwright, AB	7,146	847	7,993
Subtotal	**158,742**	**8,825**	**167,567**
Northern Canada	27,979	3,062	31,041
Other	4,922	4,882	9,804
CFHA Supply Arrangements	22,642	–	22,642
Totals	**$437,289**	**$40,613**	**$477,902**

GOVERNANCE

Members of the DCC Board of Directors are appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services, through whom DCC reports to Parliament. The Chair of the Board is separate from the CEO and the Board is able to operate independently of management. The Board has designated a lead director for governance issues in recognition of the vital importance of the Board's stewardship responsibilities. In addition, both the Chair and the CEO have participated in consultations carried out by the President of Treasury Board and the Treasury Board Secretariat (TBS) concerning proposed changes to governance practices. DCC will adopt any of the recommendations endorsed by the Treasury Board that will improve the Corporation's solid track record in this regard. The Board of Directors' current activities to safeguard the interests of the Corporation, its shareholders and stakeholders can be summarized under the following headings:

Strategic Planning

The Board provides input to management on emerging trends and issues, and it reviews and approves the Corporation's strategic plans. Planning approval includes financial policies, budgets and expenditures. Strategic considerations also include succession planning for senior managers, including the CEO.

Performance Monitoring and Evaluation

The Board monitors corporate performance against strategic and operational plans, ensuring that adequate management information is received and performance measures are in place. The Board assesses whether the Corporation's public policy objectives and statutory mandate are being fulfilled. The Board also monitors, evaluates and reports on the performance of the CEO. The Board does not formally assess the effectiveness of its own performance, or that of individual directors, although it will respond positively to the eventual direction by the Government in this regard.

Risk Management

The Board understands the principle risks inherent in the corporation's activities and ensures that management exercises good risk management. The adequacy and integrity of the internal control systems are verified by a robust audit regime that includes an annual external audit and periodic Special Examinations by the Auditor General for Canada, as well as continuous, cyclical internal audits by an independent third-party firm that is selected by, and reports directly to, the Audit Committee of the Board. With the assistance of the auditors, the Board is able to ensure the integrity of information systems and management practices. DCC employees are aware of their right to report questionable practices directly to the Board through the disclosure policy of the Code of Business Conduct.

Communications

The Board undertakes effective communication with stakeholders including the Minister, senior management of the Corporation's client (DND and the CF), and with central government agencies and industry organizations. Through active, open communication the Board of Directors maintains an excellent working relationship with management.

Board Renewal and Development

The Board defined a profile of the skills, experience and competencies required to meet the governance requirements of a Crown corporation. This profile represents a balance of public and private sector talent, with experience in fields relevant to the Corporation's business, including engineering, construction, law, finance, general management and public administration. Further, it has created a Nominating Committee which, through the Board, has provided input to the Minister for the appointment of new directors who meet the profile. The Board has also defined the selection criteria for the Chief Executive Officer and already has opened communications with the Minister in light of the fact that the term of the CEO expires later in 2005–06. The Board ensures that directors have the opportunity for orientation and training in support of fulfilling their obligations as Board members.

Board of Directors - Remuneration

BOARD COMPOSITION	APPOINTEES	ANNUAL RETAINER	PER DIEM
Chair (Private Sector)	1	$7,500	$300
Private Sector Directors	3	$3,500	$300
Public Sector Directors	1	none	none
DCC President and CEO	1	none	none
Vacancies	1	–	–

Board of Directors - Attendance

MEETINGS	NO. HELD	ATTENDANCE		
		PUBLIC SECTOR MEMBERS	PRIVATE SECTOR MEMBERS	COMBINED
Full Board	3	83%	89%	87%
Audit Committee	3	100%	83%	89%

DCC Board of Directors

CHAIR
MR. JOHN D. MCLURE

Mr. McLure is President of JDM Consulting Inc. and a senior associate at Hill and Knowlton Canada Limited. In 1975, he left the Canadian Forces to pursue a career with the federal public service. Mr. McLure served with Treasury Board of Canada, Secretariat, the Department of Fisheries and Oceans, the Department of Regional Industrial Expansion, the Department of National Defence and the Department of Western Economic Diversification. He retired from the public service as a deputy minister in 1997, when he joined Hill and Knowlton. Mr. McLure earned a Bachelor of Science degree from the University of Manitoba in 1963, and studied at the Royal Military College of Science in England.

BOARD MEMBERS
MS. KAREN ELLIS

Ms. Ellis is the Assistant Deputy Minister (Infrastructure and Environment) at the Department of National Defence. She has broad experience in leading diverse workforces undergoing significant change and in managing complex issues, in both policy and operational environments across the federal government. Previously, she held director general positions at Canadian Heritage and Public Works and Government Services Canada. Ms. Ellis earned a Bachelor of Education degree from the University of Ottawa and a Master of Arts (History) degree from Carleton University.

MR. JEAN-CLAUDE GARNEAU

As President of Excotech, Mr. Garneau has used his expertise as a consultant for Hydro-Quebec and the Société d'énergie de la Baie James, among other clients. During his 35 years with Janin Construction, he was involved in numerous projects, where he acquired a solid reputation for his understanding of all aspects of the construction industry, particularly the complexity of large-scale projects. Mr. Garneau holds a Bachelor of Science (Civil Engineering) degree from McGill University.

THE HON. STEWART MCINNES, *P.C., Q.C.*

Mr. McInnes has practised law for more than 35 years, working in the areas of corporate and commercial law, construction law, environmental law and litigation. As a former Member of Parliament for Halifax, Mr. McInnes served as Parliamentary Secretary to the Minister of International Trade, before his appointment as Minister of Supply and Services, and Minister of Public Works. A member of numerous organizations, including the Canadian Bar Association and the Canadian Foundation for Dispute Resolution, Mr. McInnes earned a Bachelor of Arts and Bachelor of Laws from Dalhousie University.

MR. ROSS NICHOLLS, *P.ENG.*

Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec and the Canadian Military Engineers Association, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

MS. NANCY PENNER

Ms. Penner has practised law for 20 years in the securities, oil and gas, and general corporate areas as partner and counsel in an Alberta law firm. She has served on the boards of directors of numerous public and private corporations and not-for-profit organizations and on the executive bodies of various industry organizations. Ms Penner holds a Bachelor of Arts degree from the University of Manitoba and holds a Bachelor of Laws degree from the University of Calgary.

Management Application of Risk Management

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within the Corporation's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize the risk. The framework is integrated into the Corporation's strategic planning process in a way that high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

A Risk Management Committee consisting of the President and the three Vice Presidents leads the risk management exercise and establishes the overall risk mitigation strategy. The required actions associated with strategic risks are pushed down to the management group and onward through the organizational structure for implementation, along with the promotion of risk management awareness and guidance to all staff. In parallel, operational risks are identified at the working level and pushed up the organization for support and management assistance.

Sound risk management practices are embedded in DCC's corporate culture; staff members are expected to identify risks and deal expediently with issues and problems. DCC does a good job balancing the risks to the Corporation with the need to provide a high level of timely operational support to the DND and the CF. DCC's risk management approach is characterized by having sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

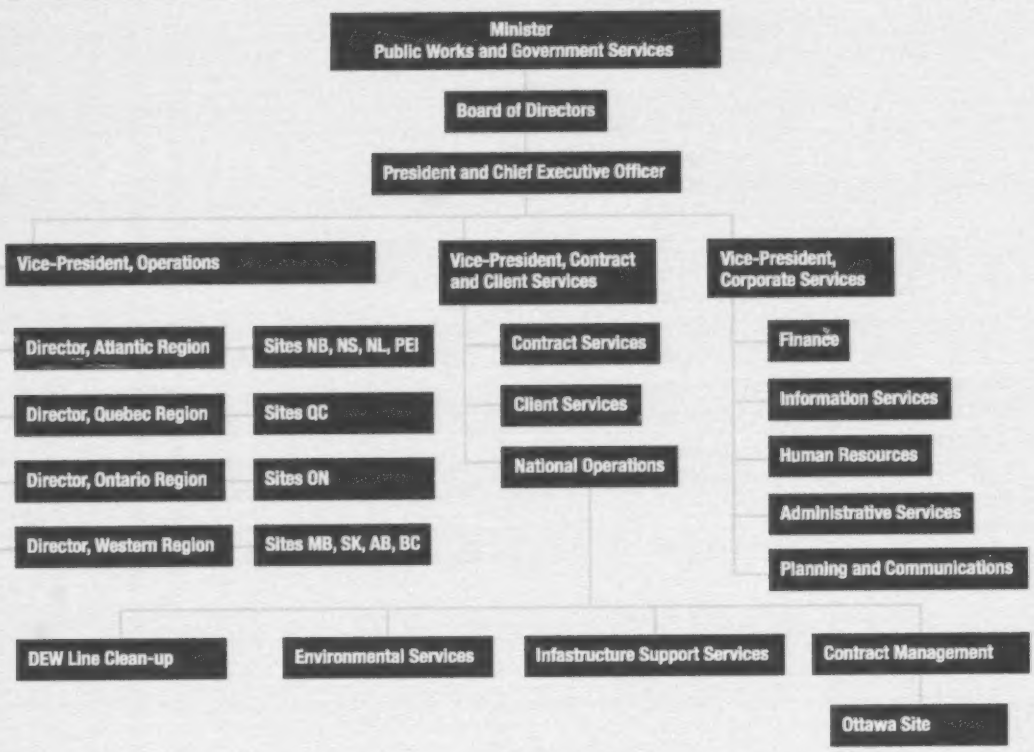
Although DCC is engaged in several potentially high-risk areas of business, such as procurement and contract management, the integrity of the Corporation's staff and businesses processes has not been questioned. One might credit this to sound internal control systems, which are essential management tools. However, the true basis of DCC's confidence in managing this risk lies in the sound values and ethics of the Corporation's employees. Leadership by the Board of Directors and senior management, and dedication and commitment from staff, has given DCC an exemplary reputation in both government and in industry. Senior managers personally expect employees to have real accountability for their actions, and employees expect the same of senior managers. There is no tolerance of unethical behavior.

The DCC Board of Directors safeguards the interests of the Corporation, its shareholders and stakeholders. Front row (left to right): Mr. John D. McLure (Chair), the Hon. Scott Brison (Minister of Public Works and Government Services). Back row (left to right): Mr. Jean-Claude Gameau, Ms. Karen Ellis, Ms. Nancy Penner, the Hon. Stewart McInnes, Mr. Ross Nicholls (President of DCC).

ORGANIZATION

DCC's executive consists of the President and Chief Executive Officer; the Vice-President, Operations, and Chief Engineer; the Vice-President, Corporate Services, who is also the Chief Financial Officer and Secretary-Treasurer; and the Vice-President, Contract and Client Services. DCC's head office, which includes Contract Services Division, Corporate Services Division and the National Operations Group, is located in Ottawa. The Operations Division includes site offices at all active CF establishments in Canada, which are managed by four regional offices (Atlantic, Quebec, Ontario and Western). In addition, DCC maintains seasonal remote offices in the Arctic, as required for the DEW Line Clean-up Project. As part of its support to CF deployed operations, the Corporation establishes site offices as required on location as it currently has in Afghanistan.

Organization



Executive Team

MR. ROSS NICHOLLS,

P. ENG.

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec and the Canadian Military Engineers Association, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

MR. RONALD DE VRIES,

P. ENG.

VICE-PRESIDENT, CONTRACT AND CLIENT SERVICES

Since joining DCC in 1983, Mr. de Vries has led a variety of corporate and industry related initiatives. He has been involved in all aspects of DCC's business, from contracting and contract management to project management and environmental services. Mr. de Vries earned a Bachelor of Science (Civil Engineering) and completed the Executive Program at Queen's University. He is currently active on several industry and government procurement committees and is a Director of the Canadian Public Procurement Council.

MR. RUSS PERRIE,

P. ENG.

VICE-PRESIDENT, OPERATIONS AND CHIEF ENGINEER

Mr. Perrie has been with DCC since 1978 and has been involved in a variety of government initiatives with DCC and the Department of National Defence. In various capacities, he has managed a wide range of consultant, facilities management and defence construction programs, projects and contracts. Mr. Perrie earned a Bachelor of Science in Engineering (Civil) from the University of Manitoba and has completed the Executive Program at Queen's University. He is active in the Canadian Military Engineers Association as the Vice-President of Member Services.

MR. ANGELO OTTONI,

CA

VICE-PRESIDENT, CORPORATE SERVICES, CHIEF FINANCIAL OFFICER AND SECRETARY-TREASURER

Mr. Ottoni joined DCC in 2001 and manages five departments, which are responsible for human resources, information services, finance, planning and communications, and administration. Before joining DCC, he worked for nine years in the technology industry and for 15 years with a major international accounting firm. Mr. Ottoni earned a Bachelor of Commerce degree from Concordia University as well as a Public Accountancy diploma from McGill University. Mr. Ottoni received his Chartered Accountant Designation in 1978.

Senior Management Team

MR. MICHAEL DARROW,
P. ENG.
DIRECTOR, ATLANTIC REGION

Since joining DCC in 1971, Mr. Darrow has been responsible for major infrastructure projects throughout the Maritime provinces. He has been the Regional Director, Atlantic Region, since 1999 and he manages the Atlantic Region program, which averages $75 million in annual work volume. Mr. Darrow has earned a certificate in Applied Science from Acadia University, a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia and a certificate in Environmental Management from Dalhousie University, and has completed the Executive Program at Queen's University.

MR. STEPHEN G. KARPYSHIN,
P. ENG.
DIRECTOR, WESTERN REGION

Mr. Karpyshin joined DCC in 1988 and was appointed Regional Director, Western Region, in 1998. Over the past 15 years, he has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. Mr. Karpyshin graduated from the University of Manitoba with degrees in Physics and Civil Engineering and has completed the Executive Program at Queen's University. He is a board member of the Alberta Construction Tender System and a member of the Alberta Federal Council.

MR. MARC LANTEIGNE,
P. ENG.
DIRECTOR, QUEBEC REGION

Since joining DCC in 1988, Mr. Lanteigne has worked in every region on projects such as the construction of short-range radar sites in Labrador and he was the Area Engineer in the Western Region, prior to assuming responsibility for the Quebec Region in 2001. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick and has also completed the Executive Program at Queen's University. He is a member of l'Ordre des Ingénieurs du Québec and the Association of Professional Engineers and Geoscientists of New Brunswick.

MR. DAVID MCCUAIG,
PMP, MPM
DIRECTOR,
NATIONAL OPERATIONS

Mr. McCuaig has been with DCC since 2000. His team of 50 engineering, environmental and project management professionals oversees over $50 million in construction and environmental projects annually. These projects include support to deployed operations and the DEW Line Clean-Up project. Mr. McCuaig has 20 years of experience in project management and construction with industry and government. He has taught project management and construction at the graduate college level. He has earned a Master of Project Management degree from the Université du Québec, holds a Project Management Professional designation and has completed the Executive Program at Queen's University.

MR. RANDY MCGEE,
P.ENG., GSC
DIRECTOR, ONTARIO REGION

Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector running his own project management firm. He has extensive experience in managing construction and consultant projects as well as design-build and construction management projects. Mr. McGee earned a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba, has completed the Executive Program at Queen's University and is a Canadian Construction Association Gold Seal Certified Project Manager.

MR. GEORGE PLANK,
DIRECTOR,
CONTRACT SERVICES

Mr. Plank's public service career began in 1979, in the procurement field with what was then the Department of Supply and Services. He subsequently held director positions at Fisheries and Oceans and at the Canadian Food Inspection Agency, where he managed a varied real property portfolio. Mr. Plank joined DCC in 2004 to manage the Contract Services Division and lead the national contracting service line. Mr. Plank holds a Bachelor of Mechanical Engineering degree from McGill University and a Master of Business Administration degree from the University of Ottawa.

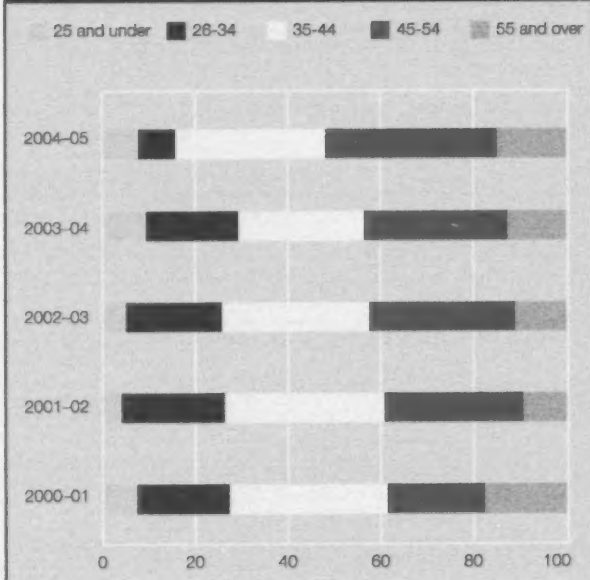
Human Resources

DCC acknowledges that its chief asset is people and that corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists and experienced tradespeople. Other specialists in finance, human resources, information technology, communications and administration support these employees. At March 31, 2005, DCC had 405 employees. This compares to 348 employees at year end in 2003–04, 280 in 2002–03, and 267 in 2001–02. This represents a 52% growth in employee base in a three year period.

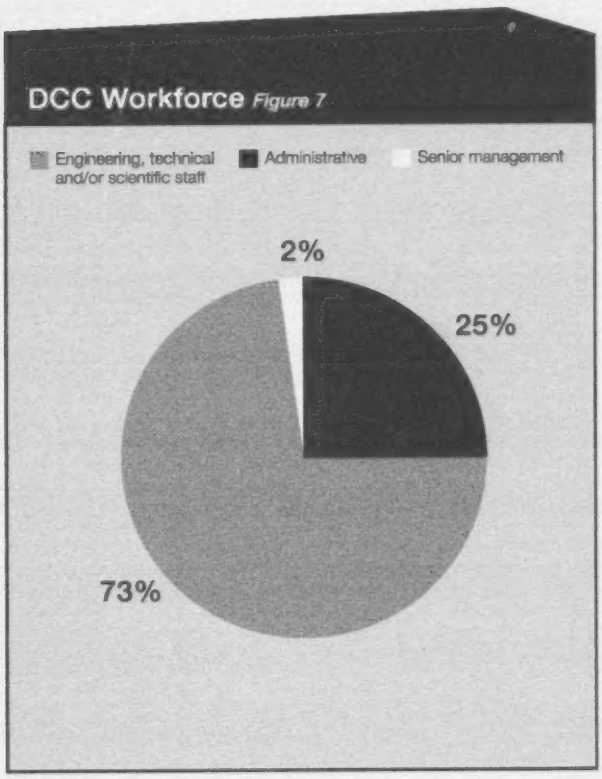
DCC recognized five employees in 2004–05 with 15 years of service, four employees with 20 years of service, two employees with 25 years of service, and one employee with 30 years of service.

Employees acknowledge that working for DCC is interesting, challenging and stimulating, and that there is a sense of mutual respect. Recruitment practices focus on engaging professionals who strive to maintain the Corporation's continued success and who take pride in achieving their personal goals.

Employee Demographics *Figure 8*



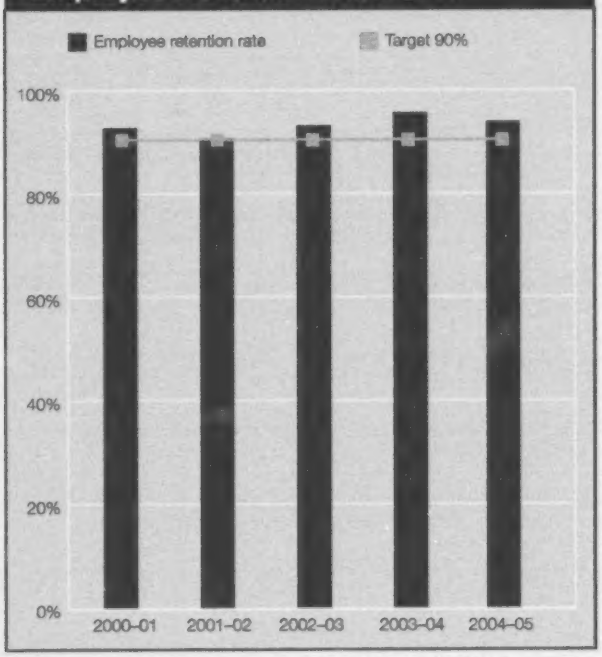
DCC Workforce *Figure 7*



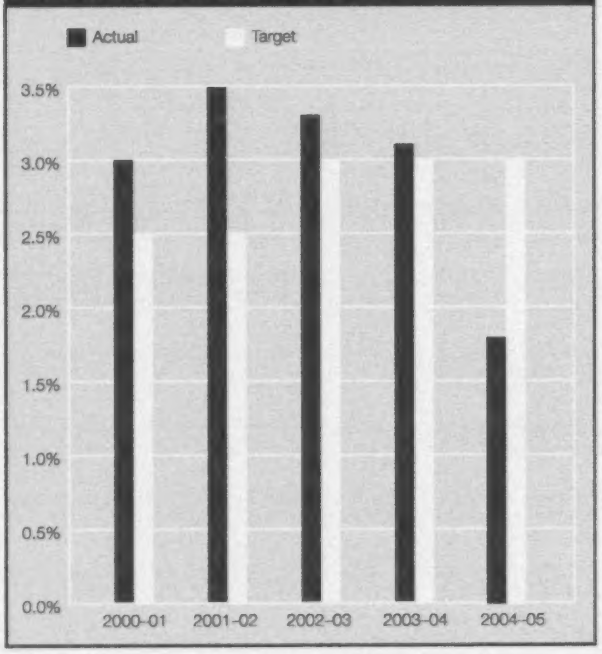
Recruitment

DCC's internal recruitment practices helped 57 employees move further along their career paths through promotions and transfers during the past year. This figure includes all internal promotions and reclassifications; five foreign assignments in Afghanistan; and six northern assignments for the DEW Line projects. When employees take advantage of the opportunity to work overseas or in the North, the Corporation and the employee all reap the benefits. The client also benefits from the transfer of DCC employee skills both to and from one of its operational theatres or remote sites where employees have the chance to hone their skills and test themselves. Throughout all of this interchange, the Corporation succeeds in expanding its collective base of knowledge and experience.

Employee Retention Rate *Figure 9*



Professional Development to Salary Cost Ratio *Figure 10*



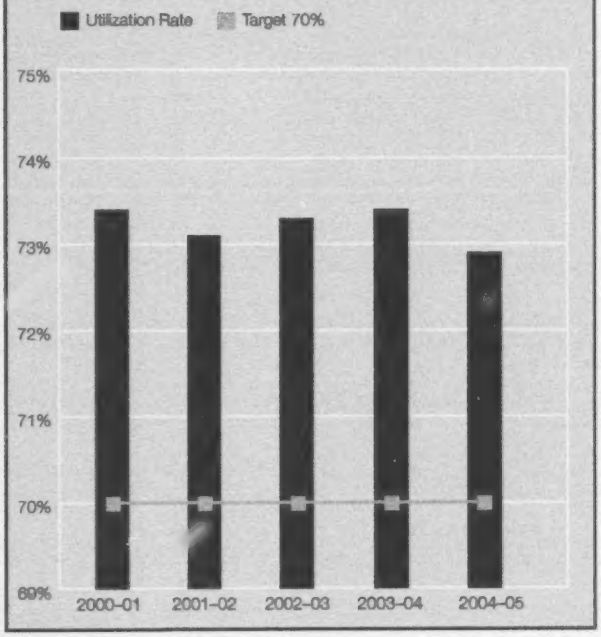
Although there is a certain turn-over of staff due to the seasonal and geographically cyclical nature of DCC's work, voluntary departures due to resignation or retirement are few. The employee retention rate has stayed above 90% for several years. DCC views this rate as a measure of employee satisfaction with DCC's working environment. As Figure 9 indicates, the retention rate decreased slightly to 93.9% in 2004–05 from 95.7% in 2003–04. To maintain DCC's attractive work environment, the Corporation promotes employee opportunities for training and lateral transfers within the Corporation.

DCC acknowledges that its ability to serve its client is heavily reliant on the skills of its employees, hence ongoing training and development is given a high priority. Each year, the Corporation sets a spending target for training and development as a proportion of total salary costs. Typically, there has been a trend for DCC to surpass its spending target of 3% in this area. However, last year, a portion of the allocation was redirected from direct training to the design and development of a comprehensive training and development framework. As a result, only 1.8% of salary cost was spent on training in 2004–05. This investment will yield a larger return to employees in future and planned spending will return to at least 3% in 2005–06.

Human Resources Management Financial Measures

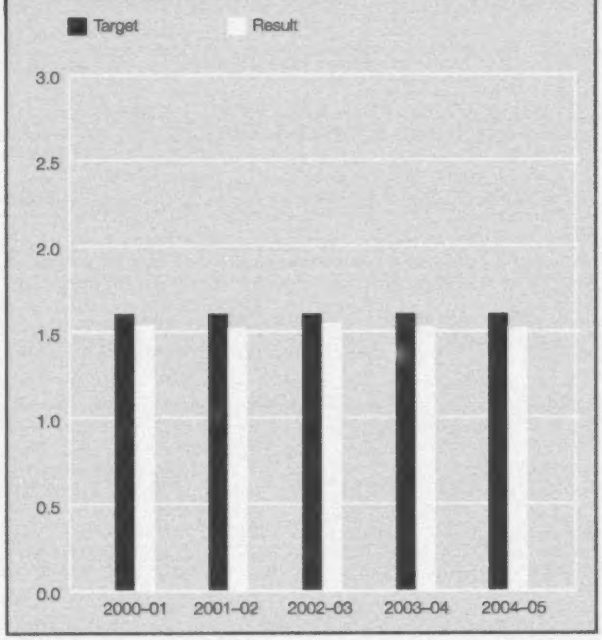
Utilization rate *Figure 11*

(Percentage of employee hours spent on client contract work)



The utilization rate (see Figure 11) is an important performance indicator as well as a key financial management tool. It indicates the hours spent on contract-related functions as opposed to non-billable overhead functions. In 2004–05, the utilization rate was 72.9%. The rate has remained fairly consistent for the past five years.

Direct Personnel Expense Multiplier *Figure 12*



The Direct Personnel Expense Multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. Direct project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used as a guideline to establish billing rates for DCC services. Fluctuations in the actual multiplier from period to period are due to the need to ensure adequate operating contingency funds to account for fluctuations in the program funding and implementation. This approach is in accordance with DCC's financial management policy.

The DPEM in 2004–05 was 1.52 compared to 1.53 in 2003–04. The DPEM target range is 1.50 to 1.60, and the actual DPEM over the past five years have consistently remained within this targeted range. The decreasing DPEM is a result of healthy business growth that has allowed management to increase billing rates at a slower rate than salary growth.

Awards and Recognition

DCC proudly recognizes the following employees for their exceptional contribution to achieving corporate goals.

National Awards 2004–05

President's Award for outstanding service to the Corporation performed consistently over time in a manner above and beyond normal work requirements.

Mr. Keith Dyer, Contract Coordinator
Trenton, Ontario
and
Mr. Harry Rohde, Contract Coordinator
Petawawa, Ontario

Service Development Award for employee performance in the development or promotion of services that respond appropriately to client requirements and for contributing to the service delivery team.

Ms. Patricia Isnor, Environmental Project Manager,
Halifax, Nova Scotia

Customer Satisfaction Award for exemplary contribution by an employee consistently over a period of time to customer service.

Mr. David Long, Contract Coordinator
Kingston, Ontario

DCC's national award winners: Front row (left to right): Michelle McAuley, Patricia Isnor. Back row (left to right): Scott Munn, Donalda McCormac, Keith Dyer, Harry Rohde, Dave Long.

Service Innovation Award recognizing employee contributions towards achieving the Corporation's goal of providing innovative, value added solutions to either an internal or external client.

Ontario Regional Office
Donalda McCormac, Administrative Officer
Michelle McAuley, Administrative Assistant
Kingston, Ontario

Robert Graham Memorial Award for recognizing a special contribution to the improvement of work place safety or environmental protection.

Scott Munn, Deputy Project Manager
Ottawa, Ontario

NATO Medal and Canadian Peacekeeping Service Medal (CPSM)

The NATO Medal is awarded to military and civilian personnel who have been, engaged in operations or in direct support of operations conducted by NATO. The Canadian Peacekeeping Service Medal (CPSM) was created to recognize all Canadians who contribute to international peace through specific peacekeeping missions. Last year, there was one employee who received both of these medals.

Ms. Marie-Reine Mereb, Manager Contract Services
Ottawa, Ontario
Operation PALLADIUM (Bosnia-Herzegovina)
Rotation 13, 2003–04

The General Service Medal

The General Service Medal (GSM) is awarded to members of the Canadian Forces and to Canadian citizens other than members of the Canadian Forces who deploy outside of Canada to provide direct support, on a full-time basis, to operations in the presence of an armed enemy. The following employees received the General Service Medal for participating in Operation ATHENA (Afghanistan) in 2004–05.

Richard Allie, Manager, Contract Services
Ottawa, Ontario
Rotation 00, 2004

Keith Dyer, Contract Coordinator
Trenton, Ontario
Rotation 00, 01, 2004–05

Perry Wallace, Contract Coordinator
Greenwood, Nova Scotia
Rotation 01, 2004

Robert Morgan, Contract Coordinator
Cold Lake, Alberta
Rotation 02, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Update on Strategic Initiatives 2004–2005

DCC's planning and reporting process is structured into four strategic themes, fostering continuity in all plans and reports and making it simpler to track corporate development. These strategic themes are corporate governance and leadership, service delivery, managing stakeholder relationships, and corporate services and support. All initiatives in the Corporate Plan and business plans can be categorized within one of these areas, and success in each of these themes supports the Corporation's overall strategy. Note that DCC's planning cycle is based on a fiscal year that runs from April 1 to March 31.

Corporate Governance and Leadership Initiatives

Given DCC's status as a Crown corporation, it is a strategic priority of the Corporation to ensure that ethical and appropriate business practices exist at all levels in the workplace. Good corporate governance is an essential foundation of a successful business, especially in the public sector, where the notion of public service demands accountability, fairness, trust, and transparency of operations. Over the last half century, these tenets have permeated the employee culture at DCC. As the Corporation has expanded gradually over the years, new employees were introduced to the integrity of DCC work practices on a more measured basis, in keeping with business volume.

Training and development of personnel are key to the success of DCC's service delivery. Pictured below (left to right) are Elaine Warren, Manager, Human Resources and Chantal Tessier, Coordinator, Recruitment.

Over the past three years, the size of DCC's workforce has increased by 52%. New employees need to be brought up to speed quickly on the DCC way of doing business. Unlike the DCC of a decade ago, a significant portion of new staff has not had long-term exposure to the culture, history and practices of the Corporation to fully appreciate the philosophical basis of the operation. DCC is aware that a strong and knowledgeable team that knows its scope of authority is a major factor in its ability to provide leadership for the Corporation. Consequently, staff training and development in both the technical aspects of the job and in corporate governance is a priority at all levels.

Although DCC has always put a lot of energy and resources into developing its staff, an initiative was undertaken last year to create a more formal framework for staff training and professional development. This initiative will span several years, given its scope and its potential to influence the individual employee's "way of life" at DCC. At the end of 2004–05, several significant milestones of this initiative were reached.

After collecting data and candid opinions from employees on how they view their own training and development needs, a framework was defined and approved at year-end. This framework is intended to be a guide to employees on how to develop their own individual career path with DCC that will be consistent with the paths of their peers. Some major components of this framework have been implemented such as a formalized new employee orientation program, and an in-house seminar, targeting senior managers.

Service Delivery Initiatives

Since the Corporation's mission is to deliver high-quality, timely and efficient services to DND, achieving excellence in service delivery remains crucial to DCC. The Corporation continually strives to improve its service delivery on each successive project and to enhance the knowledge of client requirements it has gained over the past half century.

DCC has witnessed much growth over the last few years, especially in 2004–05, when revenues increased by 18%. Validating the way the Corporation delivers services is key to ensuring success, especially during periods of growth. DCC wants to manage growth seamlessly, with no negative impacts on the client. To that end, in 2004–05, two service delivery areas received special attention.

Whether in the midst of strong economic times or times of change, the Corporation needs to maintain an effective business strategy. As part of this commitment, it must ensure that employees who regularly interact with the client have the skills and tools they need to do their jobs. Over the past several years, DCC has been working hard to better its communications and information capacity, both internally and externally.

In 2004–05, DCC launched its business tool kit. By year end, DCC finished evaluating and assessing the tools currently in the kit and the ways employees are using them. This data will be used as the kit is expanded. Additionally, DCC committed to reviewing the effectiveness of the revised system for monitoring client satisfaction and make any needed refinements. This system originally surveyed clients twice a year, but feedback showed that annual surveys would suit their requirements better. DCC adjusted the system accordingly.

On a much larger scale, when DCC looked at the way it delivers services, it saw potential advantages in leveraging resources, professional expertise and business line growth along functional lines rather than through a regional management structure. To that end, the Corporation made a commitment in 2004–05 to review its service delivery model. This initiative, which will unfold over several years, began in the first two quarters of the year with an in-depth consultation and review process. Key representatives from across the Corporation provided input into the initiative.

These consultations were supplemented further with input from an international expert in matrix management. At year end, DCC launched a service delivery framework and designated several national service line leaders. This revised model, which updates and consolidates the organization of how DCC services are delivered, reflects the clients' evolving service requirements and DCC's expertise and capabilities. The focus in the coming year will be on piloting this new matrix form of management for the environmental service line and the project and program support service line.

DCC's strong relationships with government, its client, the industry and professional associations all have a positive impact on business outcomes. Pictured (left to right) are Ross Nicholls (President of DCC), Shirley Westeinde (Chair of the Canadian Construction Association) and Alphonse Cormier (ADM Real Property Services at PWGSC).

Stakeholder Relationships

DCC needs to maintain positive relationships with government, its client, the industry and professional associations to operate effectively. The quality of these relationships can have a major impact on business outcomes. This theme covers the broader strategic aspects of corporate social performance involving those groups affected by DCC's corporate objectives, and not specifically the client–DCC service delivery relationship.

DCC believes strongly in supporting and participating in its industry and communities. Consequently, maintaining positive and transparent relationships with its stakeholders remains a strategic priority. In 2004–05, the Corporation continued to focus on encouraging its employees to become involved with their industries and to keep up to date on industry trends. In addition, the Corporation remained open to any opportunities where DCC participation would enhance a sense of community and partnership with DND and relevant industry associations.

Approximately 10% of all DCC employees are involved in some way with their relevant industry association. The nature of these organizations reflects the skill base of the Corporation, and includes engineering, technical, scientific and administrative organizations. Examples of technical and professional and industry organizations include Construction Specifications Canada (CSC), the Canadian Public Procurement Council (CPPC), the Royal Architectural Institute of Canada (RAIC), the Association of Consulting Engineers of Canada (ACEC) and the Canadian Design-Build Institute (CDBI). Also, growing numbers of employees across the country have attained certification with the Project Management Institute (PMI) and the Canadian Green Building Council (CaGBC). Some of the administrative organizations include the Human Resources Professionals Association of Ontario (HRPAO), the Information Systems Audit and Control Association (ISACA), and the International Association of Business Communicators (IABC).

In addition, throughout the Corporation, employees sit on committees and working groups within various construction associations and government organizations. Some examples of these are Environment Canada's Federal Prairie Water Committee, Public Works and Government Services Canada's Sustainable Buildings Task Group and Treasury Board Secretariat's Internet Advisory Committee.

Corporate Services and Support Initiatives

DCC has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal administrative ability touches all aspects of the business and is the key to success in maintaining high-quality service to DND. Consequently, DCC strives to keep up to date with new business methods, regulatory practices and technology, all of which affect the quality of its service delivery.

The Corporate Services Division is comprised of five branches within DCC: finance, information services (IS), human resources, administrative services, and planning and communications. Like other business units, it strives to improve continuously so that, in the end, the client can benefit from its cost-efficient and streamlined operations.

In 2004–05, DCC committed to two initiatives under the theme of corporate services and support. First, in the vein of continuous improvement, the Corporate Services Division started to identify new management performance measures throughout its groups. The Division has established these measures and is tracking and reporting them quarterly.

DCC remains up to date with advances in information technology that enhance its productivity and its service to the client. Pictured are Network Administrator Margo Blasko (left) and Server Application Support Specialist Cathy Nielsen (right).

Second, DCC decided to conduct a strategic review of its information services (IS) capacity. With growth in staff and increasingly diverse service lines, the Corporation needs to know that it is on the right technology path to meet the demands of future operations. At the beginning of the year, DCC looked inward to determine how the IS group should respond to routine operational requirements, and defined the guiding principles of IS support. In the second phase, the Corporation engaged an independent consultant to fully assess DCC's current technology systems and infrastructure, how IS services are delivered, and to provide a roadmap for future IS direction, investments and developments. At the end of 2004–05, with help from a consultant, a three-to-five year road map was developed, with an eye towards evolving the IS group into an internal strategic partner with closer working relationships with the other business units at DCC through a professional services delivery model. The road map also recommends an increase in IS services to support the model and to increase its abilities to provide training to users.

Financial Performance

(all dollar amounts reported in thousands unless otherwise indicated)

Financial Management Policy

The Corporation's financial management policy is based on a fundamental assumption that the Corporation is a going concern and its stated mandate will continue for the foreseeable future.

Until 1997, the Corporation operated on appropriations-based funding. In the fiscal year ended March 31, 1998, the Corporation began operating on a fee-for-services basis. Since that date, the Corporation's financial management policy has been to generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the operating risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures on the part of its client, DND. To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation also allows for reasonable levels of operating contingencies in determining the amount of cash reserves to carry. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in future business operating plans. In particular, surpluses judged to be in excess of operating requirements are returned to the client in the form of reduced billing rates or rebates on future services.

Fiscal 2004–2005 Compared with Fiscal 2003–2004

Services Revenue

	2004–05		2003–04		VARIANCE	
(in $ thousands)					$	%
Construction contract management	$19,801		$18,306		$1,495	8%
Contracting	3,456		2,940		516	18%
Construction and contracting services	23,257	67%	21,246	72%	2,011	9%
Environmental	4,175		2,830		1,345	48%
Project management support	3,472		2,457		1,015	41%
Energy performance	782		578		204	35%
Commissioning	832		435		397	91%
Facilities management	951		621		330	53%
Facilities decommissioning	255		457		(202)	-44%
Other	917		793		124	16%
Related services	11,384	33%	8,171	28%	3,213	39%
	$34,641		$29,417		$5,224	18%

Overall, services revenue increased in the year ended March 31, 2005 by $5,224 or approximately 18% over the previous fiscal year. The amount of this increase is attributable to a combination of factors, including increases in billing rates, which averaged about 2%; an increase in total billable hours of approximately 17%, due to increased business activity; and a change in the mix of billable resources used, which reduced the overall revenue increase by approximately 1%.

Although the Corporation experienced an 18% overall increase in services revenue, related services grew at a faster rate of 39%. This resulted in a decrease in the percentage of total revenue generated from construction and contracting services to 67% in the year ended March 31, 2005, compared to 72% in the previous fiscal year, and an increase in related services to 33% in the year ended March 31, 2005, from 28% in the previous fiscal year. Some of the revenue fluctuations such as the 91% increase in commissioning services and the 44% decrease in decommissioning are simply cyclical variations in the mix of demand in the department's program implementation. Other categories of related services showed healthy growth ranging from 16% to 53%. Contracting services revenue increased by 18%, consistent with the overall revenue increase noted above. Although the volume of the client's construction contract expenditures decreased slightly during the year, construction contract management revenue nevertheless increased by 8%. This increase is due to the variation in the nature and size of individual construction projects from year to year and the level of effort required to manage them.

Interest Revenue

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Interest revenue	$93	$126	$(33)	-26%

Interest revenue, which is generated from the Corporation's average current account bank balance, decreased in the year ended March 31, 2005 by $33 or approximately 26% over the previous fiscal year. Although the average monthly cash balance during the year ended March 31, 2005, remained constant from the previous year, interest revenue decreased due to a decrease in the average interest rate from 2.7% in the previous year to 2.2% in the year ended March 31, 2005. Although operating margins during the year ended March 31, 2005, were higher than those in the previous year, there was a decrease in the volume of advance payments (within the appropriate fiscal year) received from Public Works and Government Services Canada (PWGSC) for project work in the National Capital Region, resulting in an overall average monthly cash balance similar to the previous year.

Salaries and Employee Benefits

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Salaries	$22,868	$19,203	$3,665	19%
Benefits	5,803	4,806	997	21%
	$28,671	$24,009	$4,662	19%

Salaries and employee benefits increased in the year ended March 31, 2005, by $4,662 or approximately 19% over the previous fiscal year. This increase is attributable to a combination of higher levels of staff, which accounted for approximately 17 percentage points of the increase; inflationary salary increases and performance based incentives, which accounted for about 4 percentage points of the increase; and the difference in staff mix, which reduced the overall increase by approximately 2 percentage points.

Benefits cost increased in the year ended March 31, 2005, by $997 or approximately 21%. This increase is directly related to the increase in salaries discussed above. As a percentage of salaries, employee benefits for the year ended March 31, 2005. represented approximately 25% of salaries, a figure that remained relatively constant from the previous year.

Operating and Administrative Expenses

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Telephone and communications	$510	$499	$11	2%
Employee training and development	401	596	(195)	-33%
Rent	997	613	384	63%
Travel	291	344	(53)	-15%
Professional services	475	554	(79)	-14%
Staff relocation	308	550	(242)	-44%
Other overhead expenses	1,286	1,272	14	1%
	$4,268	$4,428	$(160)	-4%

Operating and administrative expenses for the year ended March 31, 2005, decreased by $160 or approximately 4% over the previous fiscal year. The increase in rent expense of approximately 63% is primarily attributable to the relocation in February 2004 of the head office to a larger facility, as well as the addition of office space at the regional offices to accommodate growth in personnel. Staff relocation costs decreased by approximately 44% over the previous fiscal year. Fewer staff relocations were required in the current year. Also, in the previous year, relocation costs were significantly higher due to the reorganization of the Central Region into two regions, Ontario and Quebec. Employee training and development costs decreased by approximately 33%. At the beginning of the year, management decided to use part of the training and development budget to fund the development of a new training and development framework and training tools, an initiative identified in the Corporation's 2004–05 corporate plan. Professional services costs decreased by approximately 14%, due primarily to the reduction in internal audit activity and related fees due to a decrease in audit activity during a transition to a new internal auditor during the first half of the year. New internal auditors have been appointed and this activity will increase to normal levels in the coming year. Telephone and communications costs increased by approximately 2%, due primarily to the increase in business activity. Other overhead expenses increased by about 1% over the previous year, due to a combination of inflation, business volume, changes in spending on discretionary expenses such as business development and the effects of such one-time expenses as moving costs.

Net Income

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Net Income	$987	$276	$711	258%

Net income increased to $987 in the year ended March 31, 2005 compared to $276 in the previous year. Increased business volumes, operating efficiencies and decrease in operating and administrative costs all contributed to this increase. In accordance with the Corporation's financial management policy, surpluses judged to be in excess of operating requirements are returned to the client in the form of reduced billing rates or rebates on future services.

Capital Expenditures

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Software	$129	$242	$(113)	-47%
Computer equipment	572	269	303	113%
Furniture and equipment	147	149	(2)	-1%
Leasehold improvements	20	732	(712)	-97%
	$868	$1,392	$(524)	-38%

The Corporation's capital expenditures for the fiscal year ended March 31, 2005, totalled $868, representing a decrease of 38% over the previous year. The significant decrease in leasehold improvement expenditures is the result of the fit-up costs incurred in the previous year during the relocation of the head office. The significant increase in expenditures on computer equipment is due to the replacement of the Corporation's mainframe computer system, and the increase in staff numbers due to business growth. The decrease in expenditures related to software is the result of decreased spending on development and implementation costs related to the Corporation's main business application.

Liquidity and Capital Resources

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Cash	$5,152	$4,307	$845	20%
Due from related parties	$5,796	$4,961	$835	17%
Current liabilities	$3,613	$4,264	$(651)	-15%

The cash balance at March 31, 2005, increased by about 20%. During the past year, $1,713 in cash was generated from operating activities and $868 was spent on capital expenditures, producing on overall increase of $845. In accordance with its financial management policy, the Corporation maintains sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. Any cash surpluses or shortfalls are taken into consideration in formulating future business operating plans. In particular, surpluses judged to exceed operating requirements are returned to the client in the form of lower billing rates and/or rebates on future service fees. The Corporation has no segregated cash reserves and cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The increase at March 31, 2005 in amounts due from related parties of $835 or 17% from the previous year is primarily due to a combination of higher revenues in February and March 2005 as compared to February and March 2004, and an increase in the number of days sales outstanding, from 44 days at March 31, 2004, to 46 days at March 31, 2005.

The decrease at March 31, 2005 in current liabilities of $651, or 15% compared to the previous fiscal year, is primarily attributable to the fact that in the previous year, there were significant trade payables at year-end for fit-up costs related to the head office move. Other factors that affect the fluctuation in this balance from year to year include the amount of the current portion of employee future benefits, changes in business volume and growth, and the timing of the incurrence and payment of expenditures.

Employee Future Benefits: Accrued Severance and Other Benefits

	2004–05	2003–04	VARIANCE	
(in $ thousands)			$	%
Accrued benefits	$5,586	$4,528	$1,058	23%
Less: current portion	252	609	(357)	-59%
Long-term portion	$5,334	$3,919	$1,415	36%

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2005, increased by $1,058 or approximately 23% over the previous fiscal year. The balance increased by the amount of benefits accrued in the current fiscal year of $1,187 ($840 in the previous year) and decreased by the amount of benefits paid in the current fiscal year of $129 ($111 in the previous year). The amount of this increase in the accrued benefits balance of 23% is determined by a combination of factors, including the growing workforce, a decrease in the discount rate (which is determined by reference to market interest rates), and a decrease in the average expected remaining service lifetime of active employees, due to the aging of active employees. This liability is primarily long term and, although the actuary projects a current payout amount, the exact timing of payments is not determinable. Although the Corporation has not specifically segregated funds for this obligation, it possesses sufficient capital resources to meet its severance and other benefit payment obligations as they become due.

Fiscal 2004–2005 Actual Results Compared to Plan

	ACTUAL	PLAN	VARIANCE	
(in $ thousands)			$	%
Revenue				
Services	$34,641	$30,761	$3,880	13%
Interest	93	118	(25)	-21%
	34,734	**30,879**	**3,855**	**12%**
Expenses				
Salaries and employee benefits	28,671	25,463	3,208	13%
Operating and administrative	4,268	4,342	(74)	-2%
Amortization of capital assets	808	873	(65)	-7%
	33,747	**30,678**	**3,069**	**10%**
Net income	**$987**	**$201**	**$786**	**391%**
Capital expenditures	**$868**	**$996**	**$(128)**	**-13%**

The 2004–05 to 2008–09 Corporate Plan Summary (the Plan) was tabled in the House of Commons in the summer of 2004. The table above indicates the Corporation's actual performance for fiscal 2004–05 compared to the projections in the Plan.

Services revenue was $3,880, or approximately 13%, higher than Plan. This variance is primarily attributable to higher than expected business volumes.

Interest revenue, which is generated from the Corporation's average current account bank balance, was $25, or 21%, lower than Plan. This variance is due to a combination of lower than expected average interest rates during the year and lower than expected advance payments (within the appropriate fiscal year) from Public Works and Government Services Canada (PWGSC) for project work in the National Capital Region.

Salaries and employee benefits were $3,208, or 13%, higher than Plan. This increase is largely the direct result of the higher business volumes previously discussed, which in turn resulted in higher than expected staff growth.

Operating and administrative expenses were $74, or 2%, lower than Plan. This decrease is due primarily to the lower than expected spending on internal audit fees previously discussed.

Amortization of capital assets was $65, or 7%, lower than Plan. This variance is the direct result of the lower level of capital expenditures compared to Plan.

Capital expenditures were $128, or 13%, lower than Plan. This decrease is due to lower than expected spending for computer equipment, software, office furniture and equipment.

Five-Year Summary Financial Information

(in $ thousands)

	2004–05	2003–04	2002–03	2001–02	2000–01
Revenue					
Services	$34,641	$29,417	$24,422	$20,052	$19,410
Interest	93	126	113	102	171
	34,734	29,543	24,535	20,154	19,581
Expenses					
Salaries and employee benefits	28,671	24,009	19,274	16,642	16,346
Operating and administrative	4,268	4,428	3,476	3,004	3,256
Amortization of capital assets	808	830	1,262	436	525
	33,747	29,267	24,012	20,082	20,127
Income (loss) before rebate	**987**	**276**	**523**	**72**	**(546)**
Rebate	–	–	–	–	**(639)**
Net income (loss)	**987**	**276**	**523**	**72**	**(1,185)**
Surplus, beginning of year	**2,874**	**2,598**	**2,075**	**2,003**	**3,188**
Surplus, end of year	**$3,861**	**$2,874**	**$2,598**	**$2,075**	**$2,003**
Assets					
Cash and short-term investments	$5,152	$4,307	$4,232	$2,259	$3,741
Accounts receivable, related parties, prepaids and advances	6,152	5,306	4,570	3,908	2,830
Capital assets	1,504	1,444	889	1,247	1,098
	$12,808	$11,057	$9,691	$7,414	$7,669
Liabilities					
Accounts payable, related parties and accrued liabilities	$3,361	$3,655	$3,294	$1,957	$2,601
Provision for employee benefits	5,586	4,528	3,799	3,382	3,065
	8,947	8,183	7,093	5,339	5,666
Capital stock and surplus					
Common shares	–	–	–	–	–
Surplus	3,861	2,874	2,598	2,075	2,003
	3,861	2,874	2,598	2,075	2,003
	$12,808	$11,057	$9,691	$7,414	$7,669
Cash flows from (used in)					
Operating activities	$1,713	$1,467	$2,877	$(895)	$586
Acquisition of capital assets	(868)	(1,392)	(904)	(587)	(849)
Increase (decrease)	845	75	1,973	(1,482)	(263)
Cash, beginning of year	4,307	4,232	2,259	3,741	4,004
Cash, end of year	$5,152	$4,307	$4,232	$2,259	$3,741

Future Outlook

Financial Outlook

	2004–05 ACTUAL	2005–06 PLAN	2006–07 PLAN	2007–08 PLAN	2008–09 PLAN	2009–10 PLAN
(in $ thousands)						
Revenue						
Services	$34,641	$35,380	$36,795	$37,899	$39,036	$40,207
Interest	93	71	79	86	94	90
	34,734	**35,451**	**36,874**	**37,985**	**39,130**	**40,297**
Expenses						
Salaries and employee benefits	28,671	29,972	30,871	31,797	32,751	33,733
Operating and administrative	4,268	5,316	4,997	5,096	5,198	5,302
Amortization of capital assets	808	821	911	954	1,231	1,349
	33,747	**36,1u9**	**36,779**	**37,847**	**39,180**	**40,384**
Net income (loss)	**$987**	**$(658)**	**$95**	**$138**	**$(50)**	**$(87)**
Capital expenditures	**$868**	**$810**	**$885**	**$985**	**$1,635**	**$1,235**

The Corporation has traditionally taken a conservative approach to forecasting future growth. As such, the Corporation's latest Corporate Plan shows a modest increase in revenues of 2% for fiscal 2005–06. For the remaining Plan years, revenue growth has been forecasted to increase year-over-year by rates varying from 3% to 4%, which are in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period.

Salaries and benefits expenses for fiscal 2005–06 are forecasted to increase by approximately 5% over the previous year. This increase is primarily due to expected increases in employee salaries and benefits. For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3% year-over-year, with staff strength assumed to remain constant over this period.

Operating and administrative expenses for fiscal 2005–06 are projected to increase by 25% over the previous year. This increase is due to a combination of inflationary increases and higher projected spending on certain discretionary expenses, such as staff relocations, employee training and development, business travel and professional fees. These expenses are partially related to corporate strategic plan initiatives highlighted in the Corporation's latest Corporate Plan. For fiscal 2006–07, operating and administrative expenses are forecasted to decrease by 6% due to reduced spending on discretionary items. For the remaining Plan years, operating and administrative expenses are projected to increase by approximately 2% year-over-year, primarily to cover projected inflation increases.

Amortization of capital assets is expected to increase slightly by 2% for fiscal 2005–06 over the previous year. Amortization expense shows a slight increase even though capital expenditures are projected to be approximately 7% lower in fiscal 2005–06 compared to the previous year, because amortization expense is affected by capital expenditure levels of previous years as well.

Projections for capital expenditures, as discussed below, will affect the fluctuation in amortization over the remaining years of the Plan.

A loss of $658 has been planned for fiscal 2005–06 in order to return to the Corporation's client, DND, part of the operating surplus realized in fiscal 2004–05, which is not considered necessary for future operating purposes. This is in keeping with the Corporation's financial management policy previously discussed. For the remaining Plan years, the forecast assumes a more or less break-even position.

Capital expenditures are projected to decrease by 7% in fiscal 2005–06 over the previous year. The anticipated expenditures for the year ending March 31, 2006, will primarily relate to ongoing requirements to purchase new computer equipment and software for new employees, update certain application and network software, replace older computer equipment, systems and software, and deliver training and development programs to employees. Increased spending is projected in the fiscal years ending March 31, 2009, and March 31, 2010, in anticipation of major expected upgrades to the Corporation's main computer systems and software applications.

Glance Forward

In the next year and beyond, both the Board and senior management expect that the upward trend in requests for DCC services will continue. In 2005–06, overall DND program expenditures on construction and environmental projects are forecasted to be approximately $475 million.

By its very nature, DCC's business responds to DND's circumstances. Consequently, a number of variable factors must remain top of mind throughout the strategic planning process. Some of these factors could include the results of any internal reviews of defence policy, any Canadian Forces transformation initiatives, resource constraints or surpluses at DND, emerging threats to Canadian security, and any expected periods of down time or increased need in the international arena.

The review of Crown corporations governance practices completed last year by Treasury Board of Canada, Secretariat, could have an impact on many aspects of governance in the coming years, requiring changes to corporate policies and practices. The Corporation will implement any recommendations arising from any relevant Government of Canada studies. However, the Corporation is confident in and proud of its solid track record in corporate performance and accountability, which the findings of regular internal and external audits have reinforced.

Potential for growth remains strong in all service lines but should be strongest in project management support, environmental clean-up and facilities management. DCC continues to manage this growth, recognizing the risks that fast growth brings. These risks are particularly relevant to the quality of our services and management of our human resources functions.

DCC shares the federal government's commitment to building and maintaining the capacity of the public service and to achieving effective ethical leadership and performance within a quality work environment. Corporation employees stay informed of trends in these areas and closely monitor trends in human resources management in the public service. Personnel issues that remain a constant challenge for DCC include finding qualified personnel in remote areas, finding personnel with the appropriate linguistic skills, and finding personnel with the unique combination of skills required to maintain and enhance DCC's capacity as the Corporation's services become more and more specialized. In addition, the client is feeling pressure on its own human resources as it goes through a period of growth and regeneration, and it may find itself having to turn more and more to DCC for support in managing and maintaining its infrastructure. DCC will have to be prepared to respond, when and where required.

DCC remains committed to its values of dedication, fairness and competence throughout all aspects of its business. In the next year and beyond, the Corporation looks forward to working with and creating value for its client, the industry and the people of Canada.

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MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.

Ross Nicholls, P. Eng.
President
and Chief Executive Officer

Angelo Ottoni, CA
Chief Financial Officer

May 13, 2005

AUDITOR'S REPORT

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2005 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation.

Alain Boucher, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
May 13, 2005

BALANCE SHEET

as at March 31, 2005 (in thousands of dollars)

	2005	2004
ASSETS		
Current		
Cash	$ 5,152	$ 4,307
Due from related parties (note 5)	5,796	4,961
Prepaids, advances and accounts receivable	356	345
	11,304	9,613
Capital assets (note 3)	1,504	1,444
	$ 12,808	$ 11,057
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 3,162	$ 3,329
Due to related parties (note 5)	199	326
Current portion — provision for employee future benefits (note 4)	252	609
	3,613	4,264
Provision for employee future benefits (note 4)	5,334	3,919
	8,947	8,183
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized — 1,000 common shares of no par value		
Issued — 32 common shares		
Surplus	3,861	2,874
	3,861	2,874
	$ 12,808	$ 11,057

Contingencies (note 8)

The accompanying notes are an integral part of these statements.

Approved by the Board:

Director
John D. McLure

Director
Jean-Claude Garneau

STATEMENT OF OPERATIONS

for the year ended March 31, 2005 (in thousands of dollars)

	2005	2004
REVENUE		
Services (note 5)	$ 34,641	$ 29,417
Interest	93	126
	34,734	29,543
EXPENSES		
Salaries and employee benefits	28,671	24,009
Operating and administrative	4,268	4,428
Amortization of capital assets	808	830
	33,747	29,267
NET INCOME	$ 987	$ 276

STATEMENT OF SURPLUS

for the year ended March 31, 2005 (in thousands of dollars)

	2005	2004
Surplus at beginning of year	$ 2,874	$ 2,598
Net income	987	276
Surplus at end of year	$ 3,861	$ 2,874

The accompanying notes are integral part of these statements.

STATEMENT OF CASH FLOWS

for the year ended March 31, 2005 (in thousands of dollars)

	2005	2004
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	$ 987	$ 276
Items not requiring cash		
Provision for employee future benefits	1,187	840
Amortization	808	830
Loss on disposal of capital assets	–	7
Net decrease in non-cash working capital balances related to operations	(1,140)	(375)
	1,842	1,578
Employee severance and other benefits paid	(129)	(111)
	1,713	1,467
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of capital assets	(868)	(1,392)
Increase in cash during the year	845	75
Cash at beginning of the year	4,307	4,232
Cash at end of the year	$ 5,152	$ 4,307

The accompanying notes are integral part of these statements.

Notes to Financial Statements

March 31, 2005

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not only, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, revenue is generated from fees charged for specific services provided.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Capital assets

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment:	5 years
Computers:	3 years
Leasehold improvements:	Initial lease term

In the year of acquisition, a full year amortization is recorded.

Employee future benefits

- *Other benefits plans*

Employees are entitled to specific severance and other non-pension benefits as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees. The measurement date for the last actuarial valuation of the accrued benefits obligation was February 5, 2005.

- *Pension benefits*

Employees are covered by the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions to the Plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

Revenue

Revenue is recognized in the year the service is performed.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Areas where significant estimates have been made include accrued salaries and employee future benefits. Actual results could differ from those estimates.

3. Capital assets

	2005			2004
	(in thousands of dollars)			
	Cost	**Accumulated amortization**	**Net**	**Net**
Equipment	$1,224	$957	$267	$224
Computers	7,116	6,482	634	561
Leasehold Improvements	752	149	603	659
	$9,092	**$7,588**	**$1,504**	**$1,444**

4. Provision for employee future benefits

- *Other benefits plans*

	2005	2004
	(in thousands of dollars)	
Accrued severance and other benefits	$5,586	$4,528
Less: current portion	252	609
	$5,334	**$3,919**

The Corporation provides severance and other benefit plans to most of its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

	2005	2004
	(in thousands of dollars)	
Projected benefit obligation	$6,536	$5,766
Accrued benefit liability recognized in the balance sheet	5,586	4,528
Current year's expense	1,187	840
Benefits paid during the year	129	111

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2005	2004
Discount rate for projected benefits obligation	5.60%	5.75%
Average rate of general salary increases	3.60%	3.18%
Inflation rate	2.60%	2.68%
Average rate of extended health care cost increases	4.60%	4.68%
Mortality rates based on Group Annuity Mortality - Year	1994	1994
Retirement age	59	59

- *Pension benefits*

The Public Service Pension Plan requires the Corporation to contribute at varying rates averaging 2.24 (2004 – 2.29) times the employees' contributions. The current year's contributions by the Corporation to the Plan were $2,386,109 (2004 - $1,973,040).

5. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue is generated from services provided to the Department of National Defence. The Department of National Defence provides office space free of charge for some employees of the Corporation. Amounts due from and to related parties at the end of the year are as follows:

	2005	2004
Due from:	*(in thousands of dollars)*	
Department of National Defence	$5,625	$4,823
Public Works and Government Services Canada	43	44
Department of Foreign Affairs	125	90
Department of Natural Resources	3	4
	$5,796	$4,961
Due to:		
Department of National Defence	$130	$121
Public Works and Government Services Canada	61	187
Department of Justice	8	18
	$199	$326

6. LEASE COMMITMENTS

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are as follows:

YEAR ENDING MARCH 31	
(in thousands of dollars)	
2006	$1,113
2007	1,046
2008	1,029
2009	952
2010	887
	$5,027

7. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

8. CONTINGENCIES

Letters of credit aggregating $200,000 (2004 - $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling $6,301,007 (2004 - $3,429,000) and in respect of employment matters totalling $125,000 (2004 - $75,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential legal claims.